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IN THE

Supreme Court of the United States

October Term, 1967

No. 906

ROVICO, INC.,

Petitioner,

against

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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IN THE

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OCTOBER TERM, 1967

No. .....

ROVICO, INC.,

Petitioner,

against

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

Petitioner Rovico, Inc., defendant below, respectfully prays for issuance of a writ of certiorari to review the judgment and order of the Court of Appeals for the Seventh Circuit, entered August 22, 1967 and the judgment on rehearing, entered October 11, 1967.

I

Orders, Opinions and Judgments Below

Order of the Seventh Circuit Court of Appeals denying, *en banc,* the petition for rehearing *en banc,* October 11, 1967, Appeal No. 15,905, not reported (A47).

Judgment and opinion of the Seventh Circuit Court of Appeals, August 22, 1967, Appeal No. 15,905, not officially reported, unofficially reported at 155 USPQ 119 (A35).

Order of the Seventh Circuit Court of Appeals on respondent's motion to strike from record on appeal, August 22, 1967, Appeal No. 15,905, not reported (A45).

Order of the Seventh Circuit Court of Appeals denying without opinion petitioner's petition for writ of mandamus to the District Court, November 29, 1966, Appeal No. 15,940, not reported.

Judgment of the District Court, N. D. Ill., E. Div., June 28, 1966, 62 C. 2080, not reported (A31).

Opinion of the District Court, N. D. Ill., E. Div., June 20, 1966, 62 C. 2080, officially reported at 257 F. Supp. 192, unofficially reported at 150 USPQ 180 (A11).

Order of the Seventh Circuit Court of Appeals denying without opinion respondent's petition for rehearing, April 27, 1966, Appeal No. 15,308, not reported.

Judgment and opinion of Seventh Circuit Court of Appeals on preliminary injunction, March 3, 1966, Appeal No. 15,308, officially reported at 359 F. 2d 746, unofficially reported at 148 USPQ 631 (A5).

Opinion of District Court, N. D. Ill. E. Div., on objections to exhibits, October 11, 1965, 62 C. 2080, not reported (A1).

II

Statement of the Grounds on Which Jurisdiction of This Court Is Invoked

Sought to be reviewed are the judgment (A35) and the order (A45) of the Seventh Circuit, each dated and entered August 22, 1967, and a single order (A47) denying rehearing as to both said judgment and order, dated and entered October 11, 1967. Jurisdiction to review by writ of certiorari is believed conferred by 28 U. S. C. 1254(1).

III

Questions Presented for Review

Patent Misuse: Exorbitant and Oppressive Royalties Per Se

1. Is an "exorbitant and oppressive" patent royalty, exacted under the leverage of an industry-dominating patent, a patent misuse violation of the antitrust laws (as unanimously held by the Court of Appeals in its earlier decision in this case) or is it "not a violation of the antitrust laws for a patentee to grant a license under his patent *for any royalty*" (as subsequently held by the District Court herein and then affirmed by a majority decision of the Court of Appeals)?

Patent Misuse: Exorbitant and Oppressive Royalties in Absence of Discrimination or Conspiracy to Fix Prices

2. Is the absence of discrimination, or conspiracy to fix prices, a defense to a patent misuse violation of the antitrust laws (as held herein by the District Court and affirmed by a majority decision of the Court of Appeals), or is it not a defense (as held by the Third Circuit Court of Appeals in *Hanover Shoe* v. *United Shoe Machinery Corp.*, 377 F. 2d 776, 781, 1967, cert. granted October 9, 1967, — U. S. —, 88 S. Ct. 86, and *Newburgh Moire Co.* v. *Superior Moire Co.*, 237 F. 2d 283, 293, 1956)?

Patent Misuse: Exorbitant and Oppressive Royalties as Price Fixing Device

3. Is an "exorbitant and oppressive" patent royalty a price fixing device when, as here, it is exacted from the bulk of an industry; and if so, is such royalty lawful (under *United States* v. *General Electric Co.*, 272 U. S. 476, 490;

47 S. Ct. 192, 1926) or unlawful (under *Standard Oil Co. (Indiana)* v. *United States,* 283 U. S. 163, 174; 51 S. Ct. 421, 425, 1931 and *Newburgh Moire Co.* v. *Superior Moire Co.,* 237 F. 2d 283, 291-294 (3 Cir. 1956))?

Patent Misuse: Royalties Derived From Unpatented Machines

4. Is the patent privilege used "contrary to the public interest" (as held in the dissenting opinion below) where, as here, a "patented machine is made and sold in combination with unpatented machines" and the royalty is based "not on the manufacturer's [licensee's] selling price of the patented machine" alone, "but on the retail [non-licensee's] selling price of the entire combination, patented and unpatented machines alike"?

Patent Validity: Exclusion of Evidence Contrary to F. R. Civ. P. 43(a)

5. Is F. R. Civ. P. 43(a) mandatory, or is it merely permissive, so that even on an issue affecting the public interest (herein, the validity of an industry-dominating patent) the District Court is free to exclude crucial evidence on grounds contrary to the rules of evidence of the Courts of general jurisdiction of the State in which the District Court is held?

Unclean Hands: Tampering With the Administration of Justice

6. Does a secret money offer made by one party litigant (respondent) to a prospective witness to induce him to testify against his employer (petitioner), constitute a case of unclean hands (tampering with the administration of justice in violation of 18 U. S. C. 201(h) and (i), and an

"exceptional case" under 35 U. S. C. 285) regardless of the pertinence of the prospective testimony to issues decided by the Court of Appeals?

IV

Constitutional Provisions, Statutes Involved

This case involves the commerce and patent clauses of the Constitution of the United States, Article I, Section 8 (A48); sections 1 and 2 of the Sherman Act, 15 U. S. C. §§1, 2 (A48); section 4 of the Clayton Act, 15 U. S. C. §15 (A50); section 201 of the Federal Criminal Code, 18 U. S. C. §201 (bribery of witnesses, A50); section 1254 of the Judicial Code, 28 U. S. C. 1254 (certiorari jurisdiction, A51); the following sections of the Patent Act, 35 U. S. C.: sections 102 and 103 (conditions for patentability, A51), 284 (damages, A52) and 285 (attorney fees, A52); and Rules 26 (depositions, A52) and 43 (evidence, A54) of the Federal Rules of Civil Procedure, all as set forth in Appendix IX at the pages indicated.

V

Statement of The Case

a. Proceedings That Gave Rise to This Case

In 1961 the Seventh Circuit Court of Appeals held Eisbein Patent No. 2,657,618 here in suit valid and infringed. *Copease* v. *American Photocopy Equipment Co.* (*Apeco*), 298 F. 2d 772. The losing party (defendant Apeco) in that case (plaintiff-respondent herein) thereupon bought out the prevailing party (plaintiff Copease) and became its successor in interest, acquiring title to the Eisbein patent and suceeeding to the licensor's rights

under all Eisbein patent license agreements then in force (A11-12).

b. Proceedings in This Case

On November 9, 1962, respondent instituted the present action against petitioner for infringement of the Eisbein patent. Petitioner counterpleaded, *inter alia,* patent misuse in violation of the Anti-trust Laws. On June 11, 1965, the District Court granted respondent's motion for a preliminary injunction, and petitioner appealed to the Court of Appeals for the Seventh Circuit.

The Court of Appeals heard and decided the appeal *after* the main case was *tried,* but *before* it was *decided.* In its decision of March 3, 1966 (A5; 359 F. 2d 746), affirmed on rehearing, the Court of Appeals noted petitioner's undisputed showing (A5, 7) that:

> "* * * plaintiff's license terms require payment of a royalty of 6% of the net *retail* selling price, which amounts to an equivalent of about 12% of the *manufacturer's* (licensee's) selling price, and that the royalty is payable on the entire machine, which includes both the patented and unpatented parts.
>
> * * *
>
> "* * * that inasmuch as * * * the value of the licensed part (one-half) of the machine is only half the value of the whole machine, the royalty imposed is approximately 24% of the manufacturer's selling price of the licensed half of the machine." (The Court's emphasis.)

The Court of Appeals recognized the analogy between this case and two Supreme Court decisions by citing and quoting them as follows (A8, 9):

> "In Mercoid Corp. v. Mid-Continent Co., 320 U. S. 661, at 667, 64 S. Ct. 268, 272, 88 L. Ed. 376 (1944), the court said:

> "'* * * The patent is employed to protect the market for a device on which no patent has been granted. But for the patent such restraint on trade would plainly run afoul of the anti-trust laws. * * *'"
>
> * * *
>
> "In Brulotte v. Thys Co., 379 U. S. 29, at page 33, 85 S. Ct. 176, at page 179, 13 L. Ed. 2d 99 (1964), the court, while recognizing the leverage of a patent monopoly as a means of exacting royalties said:
>
> "'* * * But to use that leverage to project those royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent by tieing the sale or use of the unpatented article to the purchase or use of unpatented ones. * * *'"

The Court of Appeals held the Eisbein patent in suit unenforceable because respondent's licensing policy violated the antitrust laws (A7):

> "The record before us shows that the license agreements in effect require plaintiff's licensees to fix a minimum selling price far above the price which they would otherwise charge and that the royalty policy of plaintiff is in violation of the anti-trust laws of the United States, being exorbitant and oppressive."

On June 20, 1966 the District Court rendered its decision on the main case (A11-30, 257 F. S. 192) and held, contrary to the decision of the Court of Appeals, that:

(a) "We cannot assume that there exist restrictions against 'unreasonably high royalties,' absent any proof of favoritism or conspiracy to fix prices * * *" (A26).

(b) "Indeed, the case law is uncontroverted to the effect that it is not a violation of the anti-trust laws for a patentee to grant a license under his patent *for any royalty* * * *." (A26; the Court's emphasis.)

(c) " * * * we cannot consider that 6-12-24 per cent royalty charged herein to be oppressive" (A27).

(d) " * * * we can find no rationale to support defendant's argument relating to 'tying.' While APECO's royalties are charged as a percentage of the retail selling price of the whole photocopying machine, [patented] developing and [unpatented] exposure devices alike, it would seem illogical to this Court to conclude that APECO thus expanded its patent monopoly to include a non-patented device" (A28).

Additionally, the District Court held the Eisbein patent in suit valid (A13-19) and infringed (A19-24).

Petitioner thereupon applied to the Court of Appeals for a writ of mandamus to compel the District Court to adopt and apply the antitrust law laid down in the decision of March 3, 1966 as the law of the case and of the Circuit. The petition for mandamus was denied without opinion.

On July 19, 1966 petitioner appealed the District Court decision of June 20, 1966. Respondent moved to strike certain items of evidence (pertinent to Questions 1, 3, 4 and 6 herein) from the record on appeal.

On August 22, 1967 the Court of Appeals granted the motion to strike (A45) and concurrently affirmed the District Court by a majority decision (A35), Circuit Judge Schnackenberg dissenting (A44) as follows:

"The record shows that the patented machine is made and sold in combination with unpatented ma-

> chines installed in the same cabinet and that the royalty paid by the manufacturer, is based, not on the manufacturer's selling price of the patented machine, but on the retail selling price of the entire combination, patented and unpatented machines alike. Thus, although the royalty rate of 6% remains constant, the actual royalty, applied to the manufacturer's selling price, ranges between 24% and 136%.* It has been demonstrated in this case that the patent privilege in this case is being used by plaintiff contrary to the public interest. *Mercoid Corp.* v. *Mid-Continent Company,* 320 U. S. 661, 669 (1944); *Morton Salt Co.* v. *Suppiger Co.,* 314 U. S. 488, 492 (1942)."

Petitioner applied for rehearing *en banc.* On October 11, 1967, the petition was denied (A47), Judge Schnackenberg again dissenting:

> "Judge Schnackenberg voted to grant the petition for rehearing en banc, said hearing to be limited to the defense of misuse and plaintiff's reply thereto."

c. Nature of Patent in Suit

The invention relates to the process of office photocopying whereby positive copies are made from original documents. As found by the District Court (A12), this process

> "involves two basic steps—exposure and development. * * *
>
> "The Eisbein patent at issue discloses and claims a machine for performing the development stage alone * * *."

---

* This finding of a royalty ranging as high as 136% is based on proffered evidence excluded by the order of August 22, 1967 (A45).

Originally the exposing and developing steps were performed on two separate machines (the unpatented exposing machine and the patented developing machine) occupying two separate cabinets. Their transition to a single cabinet was described by counsel for respondent (Hearing of April 29, 1966, Tr. 23) as follows:

> "Mr. Crown: * * * As the Court will recall, initially the two devices were made separately with two motors. Then, the next step in the development of the machine was to put a little indentation on top of the developer device or on top of the exposure device so that you could stand the two together, two electrical cords, two motors, two separate units. Then, pretty soon, when the technology improved, the machines were combined * * *."

They are *still* separate machines although in most (not all) cases they occupy the same cabinet and are driven by the same motor. Each performs its own function independently of the other.

The patent in suit does not cover the photocopying process, *per se;* it does not cover the exposing machine alone; it does not cover the exposing machine in combination with the developing machine. *The patent covers the developing machine alone.* The photocopying process, the exposing machine, and the combination of both machines, are in the public domain.

d. The Patent Dominates the Industry

Respondent "is the largest in the field of diffusion-transfer * machines" (Trial Tr. 33). Respondent and its licensees comprise the bulk of the industry, as found by the Court of Appeals in its decision of March 3, 1966 (A10), and as testified by respondent's secretary and general counsel MacLeod (Appendix to Appellant's Brief, 144a-145a):

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* The technical name of the photocopy process is Diffusion-Transfer-Reversal (DTR).

"Q. Mr. MacLeod, isn't it a fact that your licensees and Apeco itself constitute the bulk of the industry? A. Yes.*

Q. So that the entire transfer-diffusion industry is involved with the Eisbein patent in the following way: One, Apeco is the licensor. Then there is a group of companies, and they, with Apeco, constitute the bulk of the industry, they are licensees, and the third group are those who are charged with infringement? A. Either in litigation or not in litigation. Yes, that is correct."

Not only does the patent involve the bulk of the industry, but all licenses granted thereunder by respondent contain the provision (DX-I 1, 2, 3, 5, 6, 7, 10, 12) that:

"It is expressly agreed by Licensee that Licensed Machines hereunder include *all of the diffusion transfer machines* being marketed by Licensee and any of its subsidiaries on the date of this Agreement." (Emphasis supplied.)

The District Court's finding of a larger relevant market occupied only in small part by respondent (A25-27) is not supported by the record. The *only* reference to this larger market in the entire trial record appears in the following leading question and hearsay answer (Tr. 1249; 147a):

"Q. [By Mr. Conner, respondent's attorney] Mr. MacLeod, do you have any idea of the total volume of sales in the United States of the office photocopy industry as a whole, including not merely diffusion-transfer, but also Xerography, Thermography, and diffusion-transfer? A. [By Mr. MacLeod, respondent's secretary and general counsel] Yes, it has been estimated in publications to be four hundred to five hundred million dollars a year."

---

* They now comprise the *entire* industry. On or about November 30, 1967, *Apeco* v. *A. B. Dick* (D. C. Ill.) was settled for an undisclosed but substantial sum and the granting of a license under the Eisbein patent.

VI

Reasons for Allowance of the Writ

QUESTION 1

Patent Misuse: Exorbitant and Oppressive Royalties Per se

This is an important question of federal patent and antitrust law which has not been, but should be, settled by this Court.

The question is *whether the leverage of a patent monopoly may be used to exact exorbitant and oppressive patent royalties.*

It was held by the Court of Appeals on the preliminary injunction appeal herein (A7) that:

> "* * * the royalty policy of plaintiff is in violation of the antitrust laws of the United States, being exorbitant and oppressive."*

It was thereafter held by the District Court (in its decision on the main case) that (A26):

> "We cannot assume that there exist restrictions against 'unreasonably high royalties,' absent any proof of favoritism or conspiracy to fix prices * * *. Where a patentee is certainly free not to license at

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* As noted in "Patents and the Anti-Trust Laws" published by The Bureau of National Affairs (p. 17):

> "* * * a court has for the first time held an 'exorbitant and oppressive patent-royalty rate to be misuse of the patent."

This decision has aroused great interest and some ridicule. The George Washington Law Review for May, 1967, in an article entitled "This Year (1966) in Patent Law" (p. 742) characterized the decision as a "novel, if not bizarre view."

> all, we fail to see how competition is restrained by charging high royalties. * * * Indeed, the case law is uncontroverted to the effect that it is not a violation of the anti-trust laws for a patentee to grant a license under his patent *for any royalty* or upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure. * * * *United States* v. *General Electric Co.*, 272 U. S. 476, 47 S. Ct. 192, 71 L. Ed. 362 (1926); *United States* v. *Huck* (D. C. Mich., 1964), 227 F. Supp. 791, 803, affd. 382 U. S. 197, 86 S. Ct. 385, 15 L. Ed. 2d 268 (1965)" (the Court's emphasis).

This decision was affirmed by a majority decision of the Court of Appeals (A43), Judge Schnackenberg dissenting (A44).

Respondent's position* on this issue of the right to charge any patent royalty whatsoever, no matter how high, is stated in its Memorandum in Opposition to Petition for Rehearing (p. 6) as follows:

> "* * * defendant charges that the District Court's opinion that a patentee may 'grant a license for *any royalty*' is contrary to the law as laid down by the U. S. Supreme Court. Defendant has neglected to mention the fact that this language was quoted verbatim from the opinion of the U. S. Supreme Court in *United States* v. *General Electric Co.*, 272 U. S. 476, 489, 47 S. Ct. 192, 196 (1926):
>
> "'. . . the patentee may grant a license to make, use and vend articles under the specification of the patent for any royalty or upon any condition

* This position was adopted by both Courts below, Judge Schnackenberg alone dissenting.

> the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure.'
>
> "That the 'reasonable' test applies only to a 'condition' and not to the amount of the royalty* was made clear by the recent opinion of the Court in *Brulotte* v. *Thys*, 379 U. S. 29, 33, 85 S. Ct. 176, 179 (1965):
>
> " 'A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly.' "

Query: Have the Courts below correctly construed the *General Electric* decision of this Court? Is not a royalty as much a condition for a license as any condition that has ever been impressed upon a license? And, if so, should not *General Electric's* "reasonable reward" rule apply to royalties equally as well as to all other conditions?

Should not *General Electric* be interpreted (to paraphrase the above quotation from that case) as holding that:

> "The patentee may grant a license * * * for any royalty" *which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure,* "or upon any" *other* "condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure." (Italicized language not in original)

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* This is also the view expressed in "Patents and the Anti-Trust Laws" published by the Bureau of National Affairs (p. 20):

> " * * * the rule applied by the Seventh Circuit [in the decision on the preliminary injunction appeal herein], if upheld, would have to be regarded as an important curb on a patent owner's traditional right to charge all the traffic will bear—or, as the Supreme Court put it in Brulotte, 'to exact royalties as high as he can negotiate with the leverage of [the patent] monopoly.' "

Should not *Brulotte* be interpreted (to amplify the above quotation from that case) as holding that:

> "A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly", *provided, however, that they are reasonably within the reward which the patentee by the grant of the patent is entitled to secure.* (Italicized language not in original)

Are not these interpretations of *General Electric* and *Brulotte* supported by the following decisions of this Court?

Automatic Radio Mfg. Co. v. *Hazeltine Research,* 339 U. S. 827, 833, 70 S. Ct. 894, 897 (1950):

> "The right to a patent includes the right to market the use of the patent at a *reasonable return.*" (Emphasis supplied)

Standard Oil Co. (Indiana) v. *United States,* 283 U. S. 163, 172, 51 S. Ct. 421, 424 (1931):

> "The Government next contends that the agreements to maintain royalties violate the Sherman Law because the fees charged are *onerous.* * * * Unless the industry is dominated, or interstate commerce directly restrained, the Sherman Act does not require cross-licensing patentees to license at *reasonable rates* others engaged in interstate commerce." (Emphasis supplied)

United States v. *National Lead Co.,* 332 U. S. 319, 349, 67 S. Ct. 1634, 1648 (1947):

> "Recognizing the difficulty of computing a reasonable royalty, nevertheless, that conception is one that already has been recognized both by Congress and

by this Court. The term frequently has been employed in Sherman Anti-trust case consent decrees."

QUESTION 2

Patent Misuse: Exorbitant and Oppressive Royalties in Absence of Discrimination or Conspiracy to Fix Prices

This is an important question of federal patent and antitrust law on which the Seventh Circuit Court of Appeals has rendered a decision in conflict with two decisions of the Third Circuit Court of Appeals on the same matter.

The question is this: *Is the absence of discrimination, or conspiracy to fix prices, a defense to a case of patent misuse in violation of the antitrust laws?* This question was answered in the affirmative by the District Court below (and affirmed in the majority opinion of the Court of Appeals, A42) as follows (A26):

> "We cannot assume that there exist restrictions against 'unreasonably high royalties,' *absent any proof of favoritism or conspiracy to fix prices* * * *."(Emphasis supplied.)*

As to the absence of *discrimination,* this decision directly conflicts with the decision of the Third Circuit Court of Appeals in *Hanover Shoe* v. *United Shoe Machinery Corp.,* 377 F. 2d 776, 781 (1967), cert. granted October 9, 1967, ——U. S. ——, 88 S. Ct. 86:**

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* "Unreasonably high royalties" as a violation of the antitrust laws are discussed under Question 1 hereof. Question 2 deals only with the significance of the absence of discrimination or conspiracy to fix prices.

** Hanover Shoe does not deal with exorbitant royalites. It is cited solely for its holding that avoidance of discrimination is not, *ipso facto,* avoidance of violation of the antitrust laws.

> "United urges that its leasing system did no injury to Hanover because Hanover's competitors were subject to the same practices which United uniformly imposed on all its customers. This is a remarkable proposition. It is founded upon the premise that harm done to a customer loses its injurious effect when similar harm is inflicted upon other customers similarly situated. It would punish a partial wrong but absolve it if it is widespread and thus reduce the antitrust laws to a moral imperative without realistic effect."

As to the absence of *conspiracy to fix prices,* the decisions of the Courts below directly conflict with the decision of the Third Circuit Court of Appeals in *Newburgh Moire Co.* v. *Superior Moire Co.,* 237 F. 2d 283, 293 (1956):*

> "Here we reach no further than the issue [absence of conspiracy] reserved by the Supreme Court in each of the Gypsum cases. At worst, we think that the patent laws were not intended to empower a patentee to grant a plurality of licenses, each containing provisions fixing the price at which the licensee might sell the product or process to the company, and that, if a plurality of licenses are granted such provisions therein are prohibited by the antitrust laws [regardless of the absence of a price-fixing conspiracy]."

It is respectfully urged that this conflict between the Third and Seventh Circuits be reviewed and resolved by this Court.

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* Newburgh Moire does not deal with exorbitant royalties. It is cited solely for its holding that the absence of conspiracy is no defense to a case of violation of the antitrust laws.

QUESTION 3

Patent Misuse: Exorbitant and Oppressive Royalties as Price Fixing Device

This is an important question of federal patent and antitrust law which has not been, but should be, settled by this Court.

The question is (a) *whether an exorbitant and oppressive royalty, exacted from the bulk of an industry, is a price fixing device;* and, if so, (b) *whether it violates the antitrust laws.*

The closest this Court has come to answering the first half of this question is its holding in *Standard Oil Co. (Indiana)* v. *United States,* 283 U. S. 163, 174, 51 S. Ct. 421, 425 (1931) that:

> "If combining patent owners effectively dominate an industry, the power to fix and maintain royalties is tantamount to the power to fix prices.[9]

"[9] Where the royalty demanded is a fixed percentage of the gross sales price, this relationship is clear."

In *Newburgh Moire Co.* v. *Superior Moire Co.,* 237 F. 2d 283, 293 (1956), the Third Circuit Court of Appeals held that:

> " * * * prices to the public are controlled to some degree at least by the amount of the royalties which licensees must pay and that therefore even ordinary licenses smack of price fixing."

It is believed that the present case is the first to place this question squarely before the Court. The facts satisfy the criteria laid down in *Standard Oil.* While it is true that we do not here have "combining patent owners" who "effectively dominate an industry", we do have a patent that dominates its industry.

We also have a royalty which is "a fixed percentage of the gross sales price". Indeed (and this goes beyond *Standard Oil*), we have a royalty based on the gross sales price which the retail dealer (who is not a licensee) charges the public, rather than on the gross sales price which the manufacturer (who is the licensee) charges his own customers (wholesale or retail dealers).

The 6% royalty in the present case admittedly is based on and derived from the retail selling price of the entire package, patented and unpatented machines alike. Admittedly the royalty amounts to 24%* when applied to the licensee's (manufacturer's) selling price of the patented machine. The District Court recognized the impact of a royalty of this magnitude upon the selling price (Hearing of April 29, 1966, Tr. 24):

> The Court: No one would contend it [the 24% royalty] doesn't have any effect on the selling price. I don't think you could seriously say it didn't have any effect on the selling price * * *.

Regarding the second half of the question, the Court of Appeals unanimously held in its earlier decision in this case (A7) that:

> "The record before us shows that the license agreements in effect require plaintiff's licensees to fix a minimum selling price far above the price which they would otherwise charge and that the royalty policy of plaintiff is in violation of the antitrust laws of the United States, being exorbitant and oppressive."

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* On the basis of the evidence, both in the record and proffered, Judge Schnackenberg found (A44) that "the actual royalty, applied to the manufacturer's selling price, ranges between 24% and 136%."

Query: Is this the law today and should it have been applied in the majority decision of the Court below (A43), or is the rule of *United States* v. *General Electric Co.*, 272 U. S. 476, 490, 47 S. Ct. 192 (1926) still in effect, sanctioning price fixing by patent licensors?

In this connection we quote the Third Circuit Court of Appeals (*Newburgh Moire Co.* v. *Superior Moire Co.*, 237 F. 2d 283, 292, 1956):

> "The principle enunciated in Bement & Sons v. National Harrow Co., 1902, 186 U. S. 70, 22 S. Ct. 747, 46 L. Ed. 1058, and followed in United States v. General Electric Co., 1926, 272 U. S. 476, 47 S. Ct. 192, 71 L. Ed. 362, permitted a patentee to fix the price the licensee of the patent may charge for the device. *It is difficult to say how much of this principle remains in the law.* This question came to a head but was not resolved in United States v. Line Material Co., 1948, 333 U. S. 287, 312, 68 S. Ct. 550, 92 L. Ed. 701. * * * Four Justices thought that the General Electric decision should be overruled. Three thought otherwise and dissented. One Justice did not participate." (Emphasis supplied.)

In 1965, *General Electric* was again sustained by an equally divided Court in *United States* v. *Huck Mfg. Co.*, 382 U. S. 197, 86 S. Ct. 385, cited by the District Court (A26).

QUESTION 4

Patent Misuse: Royalties Derived From Unpatented Machines

This is an important question of federal patent and antitrust law which has been decided by the Court of Appeals in conflict with applicable decisions of this Court, including *Mercoid Corp.* v. *Mid-Continent Co.*, 320 U. S. 661, 64 S. Ct. 268 (1944), *Automatic Radio Mfg. Co.* v. *Hazeltine Research*, 339 U. S. 827, 70 S. Ct. 894 (1950), and

United States v. *General Electric Co.*, 272 U. S. 476, 47 S. Ct. 192 (1926).

The question is *whether it is an unlawful expansion of the patent monopoly to exact royalties from unpatented machines sold in combination with the patented machine, or from the unpatented combination of both machines.*

Citing *Automatic Radio Mfg. Co.* v. *Hazeltine Research*, 339 U. S. 827, 70 S. Ct. 894, 1950 (and related Hazeltine cases in the Seventh Circuit, among other decisions) the District Court answered this question in the negative (A28):

> "* * * we can find no rationale to support defendant's argument relating to 'tying'.* While APECO's royalties are charged as a percentage of the retail selling price of the whole photocopying machine, [patented] developing and [unpatented] exposure devices alike, it would seem illogical** to this

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* Is it not a "tying" relationship when prospective licensees offer to pay royalties on the patented machine alone, but are compelled to pay royalties on both machines?

> Q. [By Mr. Stoll, petitioner's attorney] * * * What have they [prospective licensees] informed you are the facts? A. [By Mr. MacLeod, respondent's secretary and general counsel] They have informed me that they would like to pay a royalty on [of] 6 percent of whatever is represented by the [patented] developing unit.

** This is a complete reversal of the District Court's earlier views expressed at the Hearing of April 29, 1966 (Tr. pp. 8-9):

> The Court: * * * It doesn't make sense and it does offend my sense of equity—when you take a patented article that may sell, whether it is for $50 or $100, and you put it in a cabinet and it sells for $400 or $450, that the licensor should receive a royalty on the entire instrument. * * *
>
> I am frank to say that while I was convinced at the time I tried the case that that was the law, the fact that it was, didn't mean that I should like it, and I didn't like it then and I don't like it now. I just think it is an unrealistic approach when licensors should receive royalties on unpatented articles * * *.

> Court to conclude that APECO thus expanded its patent monopoly to include a non-patented device. * * * Whether the royalty is stated as 6 per cent of the retail price of the entire machine, including the non-patented device, or 12 per cent of the retail price of the Eisbein apparatus alone is not essential [material?], for the result is precisely the same * . . . a specified charge for the right to manufacture under the patent at issue."

The majority decision of the Court below affirmed the District Court (A42-43):

> "The [district] court found no misuse in the alleged charging of royalties on the unpatented exposure part of the device * * *. We are not persuaded the findings are clearly erroneous or the conclusion of non-misuse is erroneous. Rovico's heavy reliance on *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661 (1944), is misplaced * * *."

But the dissenting opinion also relied heavily on *Mercoid* (A44):

> "The record shows that the patented machine is made and sold in combination with unpatented machines installed in the same cabinet and that the royalty paid by the manufacturer, is based, not on the manufacturer's selling price of the patented machine, but on the retail selling price of the entire combination, patented and unpatented machines alike. Thus, although the royalty rate of 6% remains constant, the actual royalty, applied to the

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* This conclusion has no support in the record. It erroneously presupposes the same cost or price relationship between the patented and unpatented machines in all models.

> manufacturer's selling price, ranges between 24% and 136%. It has been demonstrated in this case that the patent privilege in this case is being used by plaintiff contrary to the public interest. *Mercoid Corp.* v. *Mid-Continent Company,* 320 U. S. 661, 669 (1944); *Morton Salt Co.* v. *Suppiger Co.,* 314 U. S. 488, 492 (1942)."

Query: Have the District Court and the majority of the Court of Appeals correctly construed *Automatic Radio* and *Mercoid?* Do these decisions sanction the use of the leverage of a patent on one machine to exact royalties from another (unpatented) machine joined therewith, or from the unpatented combination of both machines?

Is it not the settled rule of this Court that any *ultra vires* use of a patent monopoly constitutes patent misuse, and that where, as here, it affects an industry, it violates the antitrust laws? The test was laid down in *United States* v. *General Electric Co.,* 272 U. S. 476, 489, 47 S. Ct. 192 (1926) where it was held that:

> "* * * the patentee may grant a license * * * for any royalty or upon any condition the performance of which is *reasonably within the reward* which the patentee by the grant of the patent is entitled to secure." (Emphasis supplied)

The test was restated in *Automatic Radio* (339 U. S. at p. 833, 70 S. Ct. at p. 897):

> "The right to a patent includes the right to market the use of the patent at a *reasonable return.*" (Emphasis supplied)

Query: Is it "reasonably within the reward" of a machine patent, to derive royalties from an unpatented

machine which is sold in combination with the patented machine, or to derive royalties from the unpatented combination of both machines?

It is respectfully submitted that this Court has answered this question in the negative in *Mercoid,* and that the majority decision in the Court below is in direct conflict with that case.

QUESTION 5

Patent Validity: Exclusion of Evidence Contrary to F. R. Civ. P. 43(a)

This is an important question of federal procedural law (interpretation of F. R. Civ. P. 43(a)) which has not been, but should be, settled by this Court. The Court of Appeals below has answered it in conflict with the decisions of all of the other Courts of Appeals on the same matter.

The question is *whether F. R. Civ. P. 43(a) is mandatory or permissive,* particularly the provision that:

> "All evidence shall be admitted which is admissible * * * under the rules of evidence applied in the courts of general jurisdiction of the state in which the United States court is held."

In the present case, this question is determinative of an issue affecting the public interest—validity of a patent which dominates an industry.

The question arises in connection with a certain Boeger deposition (DX-J4 id.) which is the direct answer to the District Court's finding (A18) of "repeated failure" by the industry "to develop a practical mode of operation for office use". The Boeger machine was either prior to, or

contemporary with, the Eisbein machine of the patent in suit. Respondent has conceded that the two machines were "identical".*

The Boeger deposition was excluded from the case at bar because it had been taken by the present respondent ** in prior litigation (*Copease* v. *American Photocopy Equipment Co.*, 298 F. 2d 772, 7 Cir. 1961) where the interest and motive of respondent were the reverse of what they are here (A37-38). As stated by the District Court (A2):

> "* * * plaintiff's [respondent's] counsel did not have an opportunity to cross examine these witnesses with a view toward the instant suit. Indeed, in the action from which this testimony was taken, APECO (Plaintiff here) was the defendant, and was charged with infringement. It would be most improper to permit introduction of this evidence."

But Copease did cross-examine *** Boeger and respondent is the direct successor in interest of Copease (A12). Indeed, the attorney who then represented Copease and

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* Respondent says "There is no wonder it [the Boeger machine] was identical [with the Eisbein machine]. * * * Boeger had thoroughly inspected the Eisbein machine before he designed his." (Appellee's Memorandum in Opposition To Petition for Rehearing before Court of Appeals, p. 7). There is no evidence in the record of any such prior inspection; it is denied in the Boeger deposition; and even if there were such evidence, it would bear on credibility and weight, not on admissibility.

** Although this deposition was taken in *Copease*, it was not introduced into evidence in that case.

*** Respondent asserts that Boeger did not permit completion of his cross-examination. There is no evidence of this in the record, nor is respondent in a position to complain since Boeger was respondent's own witness.

conducted Boeger's cross-examination, is the same attorney who today represents respondent and served as its trial and appeal counsel.

It has long been the rule in the Courts of general jurisdiction of the State of Illinois, that a deposition taken in prior litigation is admissible in subsequent litigation, against the party who cross-examined the witness, or against the party's successor in interest. See *Wade* v. *King,** 19 Ill. 301, 308 (Sup. Ct. Ill. 1857) and *Thompson* v. *City of Bushnell,* 348 Ill. App. 395, 109 N. E. 2d 346, 350 (App. Ct. Ill. 1952).

In *Wade* v. *King* (19 Ill. at p. 308) the Supreme Court of Illinois held that:

> "* * * depositions taken in a former suit between the same parties, involving the same question, or subject matter, are admissible when the question again arises for judicial determination. And it is not material that the parties be identical, or that there be complete mutuality in respect to their relation to each other, or to the subject matter. It is sufficient, if the same matter were in issue in both cases, and those against whom the depositions are offered, *or those under whom they claim the estate or right in question,* had opportunity of cross-examining the witnesses and testing the truth of their testimony." (Emphasis supplied.)

There is no question but that the Boeger deposition was admissible in the present case under the rule of *Wade* v. *King* and other decisions of the Courts of general jurisdiction of Illinois.

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* Abraham Lincoln was one of the attorneys in this case.

The question which remains to be answered is whether the Illinois decisions were binding on the District Court under F. R. Civ. P. 43(a). If Rule 43(a) is merely permissive, the Courts below were free to disregard the rules of evidence of the Illinois State Courts and to exclude the Boeger deposition. If Rule 43(a) is mandatory, the Illinois rules of evidence were binding on the District Court, and the exclusion of the Boeger deposition was reversible error.

All of the other Courts of Appeals have held Rule 43(a) to be mandatory. Illustrative are the following:

Second Circuit:

"*Of course,* if admissible under New York law they would be admissible in a federal trial court sitting in New York under Rule 43(a), F. R. C. P." (Emphasis supplied.) *Lue Chow Kon* v. *Brownell,* 220 F. 2d 187, 189 (1955).

Third Circuit:

"In the event of a conflict between state and federal law, the rule which favors admissibility *must* be followed." (Emphasis supplied.) *Rain* v. *Pavkov,* 357 F. 2d 506, 510 (1966).

Fourth Circuit:

"Under Fed. R. Civ. P. rule 43(a) if the evidence would be admissible under the statutes, rules or decisional law of the state in which the court sits, then it *must* be admitted in the federal court." (The Court's emphasis.) *Altvater* v. *Battocletti,* 300 F. 2d 156, 159 (1962).

Fifth Circuit:

"* * * under Rule 43(a), Federal Rules of Civil Procedure, the rule whether federal or state, which favors reception of the evidence *governs.*" (Emphasis supplied.) *Shahid* v. *Gulf Power Co.*, 291 F. 2d 422, 427 (1961).

Tenth Circuit:

"* * * state rules of admissibility are *controlling* in the federal courts * * *." (Emphasis supplied.) 5 Moore's Federal Practice, section 43.04, pp. 1327-1328, as quoted in *Mutual Life Insurance Co.* v. *Bohlman*, 328 F. 2d 289, 294 (1964).

QUESTION 6

Unclean Hands: Tampering with the Administration of Justice

This is an important question of federal law concerning the integrity of the administration of justice, which in part has not been, but should be, settled by this Court, and in part has been decided by the Court of Appeals in conflict with an applicable decision of this Court.

The basic question is *whether a secret money offer to a prospective witness to induce him to testify against his employer, constitutes a case of unclean hands (tampering with the administration of justice in violation of 18 U.S.C. 201(h) and (i)) and, in patent litigation, an "exceptional case" under 35 U.S.C. 285.*

Although this question was squarely presented to both Courts below, neither chose to answer it, and it has not heretofore been decided by this Court.

18 U.S.C. 201(h) prohibits an offer of "anything of value to any person, for or because of the testimony * * * given or to be given by such person * * *."

18 U.S.C. 201(i) prohibits acceptance of "anything of value * * * for or because of the testimony * * * given or to be given" by the recipient.

In the present case, respondent's offer to petitioner's employee was that (A46):

> "* * * if he would testify * against Rovico on the question of the violation of the preliminary injunction and lose his job as a consequence ** [he] would get * * * 'four to six months salary * * * every week until you find a job.'"

Query: Does a money offer to induce a prospective witness to testify constitute a violation of 18 U.S.C. 201(h) and an inducement to violate 18 U.S.C. 201(i), and if so, does it constitute a *per se* case of unclean hands which would deprive the guilty party of any standing in a Court of Equity?

If the answer to this basic question is in the affirmative, there remains the further question of *whether the application of the unclean hands doctrine turns on the pertinence of the prospective testimony to the issues decided by the Court.*

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* Respondent could have subpoenaed this witness and taken his testimony by deposition, as respondent had done with other witnesses in the same proceeding and in the same jurisdiction (New Jersey).

** This consequence was foreseeable. How else should an employer deal with an employee who would take time off from his job, travel to a distant city (Newark to Chicago), and there testify against his employer, all at the request and expense of the employer's adversary?

The Court of Appeals excluded the evidence of the money offer on the ground (A46) that it related:

> "* * * solely to the question of violation of the preliminary injunction subsequently set aside by this Court before the judgment appealed from was entered; and that the item is not pertinent to the issue of patent misuse decided by this Court and discussed in the dissenting opinion, nor to any other issue decided in this Court's opinion."

It is respectfully submitted that this decision is in direct conflict with the decision of this Court in *Keystone Driller Co.* v. *General Excavator Co.*, 290 U.S. 240, 54 S. Ct. 146 (1933).

CONCLUSION

Petitioner respectfully requests that this petition for a writ of certiorari be granted.

Respectfully submitted,

SAMUEL J. STOLL,
Attorney for Petitioner.

Of Counsel:

SIDNEY WALLENSTEIN,
ROBERT S. STOLL.

December 7, 1967

APPENDIX TO PETITION

APPENDIX I

Opinion of District Court on Objections to Exhibits (October 11, 1965)

IN THE

United States District Court

NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

62 C 2080

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,

Plaintiff,
Counter-Defendant,

vs.

ROVICO, INC.,

Defendant,
Counter-Plaintiff.

MEMORANDUM OPINION

Objection to introduction of exhibits.

Initially, in this patent infringement suit, defendant has objected to plaintiff's proposed Exhibits 11 and 12, drawings of photocopy machines which have been held to infringe the Eisbein Patent, at issue, by the U. S. District Court for the Southern District of N. Y., and nine consent decrees entered in other suits, respectively.

Relevancy is the only ground for objection presented. The drawings in Exhibit 11 would seem relevant and

helpful to the Court when evaluating the opinion rendered in the N. Y. where they were originally offered. Certainly, we can draw analogies from features held infringing in that case.

The consent decrees, however, do not constitute a judicial determination and should be excluded.

Turning next to defendant's exhibits, we find that plaintiff has objected to the introduction of 38 items. While it is difficult to believe that some agreement could not have been reached here by the parties, we must rule on each.

Plaintiff objects to Items J, J1, J2, J3, J4, N, O, P, Q and R, on the ground that the exhibits are comprised of testimony in a different legal action involving different parties, and to the extent that said testimony is relevant on the issue of validity of the Eisbein Patent, it has already been considered by the Seventh Circuit Court of Appeals and held not to invalidate the patent.

Many of these items consist of fragmented parts of testimony and might well be lifted out of context. Such practice is dangerous, and should be avoided. Of more importance is the fact that plaintiff's counsel did not have an opportunity to cross examine these witnesses with a view towards the instant suit. Indeed, in the action from which this testimony was taken, APECO (Plaintiff here) was the defendant, and was charged with infringement. It would be most improper to permit introduction of this evidence.

Items V, V1, V2, V3, V4, V5, V6, V7, V8, V9 and W must be excluded, unless agreement is reached, under the statutory language of Sec. 282, Title 35, U. S. C. That Section provides that in actions involving the validity or

infringement of a patent, the party asserting invalidity *shall give notice* in writing to the adverse party *at least thirty days before trial* of the country, number, date, and name of the patentees of any patent, and the title, date, and page numbers of any publication to be relied upon as anticipation of the patent in suit. In the absence of such notice, proof of the said matters may not be made at the trial except on such terms as the Court requires.

If plaintiff can demonstrate that the requisite notice was not given, the Court shall properly refuse admittance of the aforesaid exhibits. *Thermo-King Corp.* v. *White's Trucking Service, Inc.*, (C. A. Fla., 1961) 292 F. 2d 668; *Edward Valves, Inc.* v. *Cameron Iron Works*, (5th Cir., 1961) 286 F. 2d. 933, 289 F. 2d. 355, *cert. den.* 368 U. S. 833. If defendant can prove, however, that plaintiff was aware of these patents and publications from prior litigation, and is fully prepared to meet same at trial, the Court may, in its discretion, allow them to be introduced. *Stiffel Co.* v. *Sears, Roebuck & Co.*, (7th Cir., 1963) 313 F. 2d. 115, *rev'd on other grounds*, 376 U. S. 225. The statute is aimed at prevention of surprise, and should be applied accordingly.

Plaintiff finally objects to Items K, K1, K2, L, L1, M, S, T, U, X, Y, Z, Z1, Z2, Z3, AA, and AA1 on the grounds of relevancy. Exhibits M, S, T, and U all dealing with papers filed by APECO in the prior litigation referred to above should not be admitted for the reasons stated earlier. Counsel was therein advocating a different result, and should not be held to the argument made at that time, if the adversary system is to have any meaning here. The other items, K, K1, K2, L, L1, X, Y, Z, Z1, Z2, Z3, AA, and AA1 are comprised of other patents, file wrappers,

interrogatories, publications, and license agreements. The Court would have no way of judging their relevancy at this time, and accordingly, must defer ruling. Exhibit L1, however, consisting of newspaper accounts of litigation under the Eisbein patent is clearly inadmissible on hearsay grounds.

Accordingly, we shall admit Plaintiff's Exhibit 11, refuse all others in controversy, plaintiff's and defendant's, and reserve ruling on Defendant's Exhibits V, V1 through V9 and W with regard to notice under Sec. 282, Title 35, U. S. C., and K, K1, K2, L, X, Y, Z, Z1 through Z3, AA and AA1 which remain subject to a demonstration of relevancy at trial.

Enter:

ABRAHAM L. MAROVITZ
Judge

Dated: October 11, 1965

APPENDIX II

Decision of Court of Appeals on Preliminary Injunction, 359 F.2d 746 (March 3, 1966)

Before HASTINGS, Chief Judge, and SCHNACKENBERG and KNOCH, Circuit Judges.

SCHNACKENBERG, Circuit Judge.

Rovico, Inc., a New Jersey corporation, appeals from an order of the district court granting to American Photocopy Equipment Company, an Illinois corporation, a preliminary injunction restraining Rovico from making, using or selling transfer diffusion reversal photocopy machines "which infringe the claims of United States Letters Patent No. 2,657,618" (known as the Eisbein patent).

Said patent we held valid in Copease Mfg. Co. v. Apeco, 7 Cir., 298 F. 2d 772 (1961). It was later assigned by Copease to the present plaintiff, which was defendant in that case.

In resisting plaintiff's motion for said injunction, a defense of price fixing was presented to the district court by Rovico, which alleged in paragraph 40 of its answer and counterclaim that plaintiff's license terms require payment of a royalty of 6% of the net *retail* selling price, which amounts to an equivalent of about 12% of the *manufacturer's* (licensee's) selling price, and that the royalty is payable on the entire machine, which includes both the patented and unpatented parts.

Some of these allegations were not fairly met and denied by plaintiff's reply to the answer. Plaintiff's reply admits its requirement of a 6% royalty of the retail selling price, but avoids taking issue with the rest of defendant's charge, by asserting that it is without knowledge or information sufficient to form a belief as to the truth of the remaining averments of paragraph 40 of said answer.

Appendix II—Decision of Court of Appeals on Preliminary Injunction, 359 F.2d 746 (March 3, 1966)

Rule 8(b) of the Federal Rules of Civil Procedure, 28 U.S.C.A. rule 8(b), provides:

> * * * Denials shall fairly meet the substance of the averments denied. * * *

We hold that, in view of the existing circumstances, this failure of plaintiff to frankly reply on a matter, which it, as patent owner and manufacturer must have had within its knowledge, exhibits a lack of fairness which completely discredits its statement that it is without knowledge of or information sufficient to form a belief as to the truth of said averment of defendant. But plaintiff insists that it is justified by the following part of rule 8(b):

> * * * If he is without knowledge or information sufficient to form a belief as to the truth of an averment, he shall so state and this has the effect of a denial. * * *

We disagree and hold that plaintiff has not in effect denied the aforesaid averment of defendant. Rule 8(b) affords no shelter to plaintiff, in view of the facts presented in Rovico's answer and counterclaim. In Harvey Aluminum (Incorporated) v. N.L.R.B., 9 Cir., 335 F. 2d 749 (1964), at 758, the court referred to rule 8(b) and said:

> "Under comparable provisions of the Federal Rules of Civil Procedure, an answer asserting want of knowledge sufficient to form a belief as to the truth of facts alleged in a complaint does not serve as a denial if the assertion of ignorance is obviously sham. In such circumstances the facts alleged in the complaint stand admitted."

Appendix II—Decision of Court of Appeals on Preliminary Injunction, 359 F.2d 746 (March 3, 1966)

Furthermore defendant contends that inasmuch as it also additionally appears by the *affidavit of Robert Vinci,* filed in this case, that the value of the licensed part (one-half) of the machine is only half the value of the whole machine, the royalty imposed is approximately 24% of the manufacturer's selling price of the licensed half of the machine. This factual statement has not been denied by plaintiff.

The record before us shows that the license agreements in effect require plaintiff's licensees to fix a minimum selling price far above the price which they would otherwise charge and that the royalty policy of plaintiff is in violation of the antitrust laws of the United States, being exorbitant and oppressive.

In the case at bar the district court indicated that it was aware of the possibility of an antitrust violation in this case, when it said:

> "* * * While the royalty charges of 6 percent of the retail price may in fact influence the minimum price of these machines, it must be noted that this is the same royalty charged by the prior owner of the patent, and held proper by the Seventh Circuit in the *Copease* [supra] litigation. We cannot say today, four years later, that such a charge is unlawful."

However, we did *not* make any such holding in the *Copease* case.

We hold that the district court record now before us reveals a violation of the antitrust laws and requires the denial of such injunctive relief as was granted by that court.

Appendix II—Decision of Court of Appeals on Preliminary Injunction, 359 F.2d 746 (March 3, 1966)

In Mercoid Corp. v. Mid-Continent Co., 320 U.S. 661, at 667, 64 S. Ct. 268, 272, 88 L. Ed. 376 (1944), the court said:

> "* * * The patent is employed to protect the market for a device on which no patent has been granted. But for the patent such restraint on trade would plainly run afoul of the anti-trust laws. * * *"

and at 669, 64 S. Ct. at 273, the court further said:

> "* * * It is sufficient to say that in whatever posture the issue may be tendered courts of equity will withhold relief where the patentee and those claiming under him are using the patent privilege contrary to the public interest. Morton Salt Co. v. G. S. Suppiger Co., supra, [314 U. S. 488], p. 492 [62 S. Ct. 402, at page 405, 86 L. Ed. 363]."

In *Mercoid,* the Supreme Court discussed the applicable principles fully, saying at 670, 64 S. Ct. at 273:

> "* * * And the determination of that policy is not 'at the mercy' of the parties (id., [Beasley v. Texas & Pac. Ry. Co., 191 U. S. 492, 497, p. 498, 24 S. Ct. 164, 48 L. Ed. 274]) nor dependent on the usual rules governing the settlement of private litigation. 'Courts of equity may, and frequently do, go much farther both to give and withhold relief in furtherance of the public interest than they are accustomed to go when only private interests are involved.' Virginian Ry. Co. v. System Federation, No. 40, 300 U. S. 515, 552, [57 S. Ct. 592, 601, 81 L. Ed. 789]. 'Where an important public interest would be prejudiced,' the reasons for denying injunctive relief 'may be compelling.' City of Har-

> risonville v. Dickey Clay Co., 289 U. S. 334, 338, [53 S. Ct. 602, 603, 77 L. Ed. 1208]. And see United States v. Morgan, 307 U. S. 183, 194, [59 S. Ct. 795, 801, 83 L. Ed. 1211]. That is the principle which has led this Court in the past to withhold aid from a patentee in suits for either direct or indirect infringement where the patent was being misused. Morton Salt Co. v. G. S. Suppiger Co., supra, [314 U. S., p. 492, 62 S. Ct. p. 405, 86 L. Ed. 363]. • • • ,,

In Brulotte v. Thys Co., 379 U. S. 29, at page 33, 85 S. Ct. 176, at page 179, 13 L. Ed. 2d 99 (1964), the court, while recognizing the leverage of a patent monopoly as a means of exacting royalties said:

> ' • • • But to use that leverage to project those royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent by tieing the sale or use of the patented article to the purchase or use of unpatented ones. • • • ,,

In the district court, in opposition to the motion for preliminary injunction, defendant submitted matter, which plaintiff herein had filed in the United States District Court for the Southern District of New York, as a part of its brief in Copease Manufacturing Co. and Apeco v. Cormac Photocopy Corp. and Anken 242 F. Supp. 993, which reveals that defendants in several New York cases brought by the present plaintiff herein, had paid substantial damages to plaintiff for infringement of the Eisbein patent, equal or substantially equal to 6% of the retail selling price of the accumulated photo-copying machines sold by said defendants prior to the date of settlement and the filing of consent decrees.

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Moreover, excerpts from plaintiff's brief filed in *Cormac and Anken* reveal that plaintiff, together with 16 other companies,[1] account for a majority of the total sales of diffusion transfer photocopy machines in the United States and further that the sixteen have accepted licenses under the Eisbein patent, and have agreed to pay uniform royalties equal to 6% of the retail sale price of the machines sold thereunder.

We are convinced that the injunction herein was erroneously granted by the district court in view of defendant's undisputed showing of an exorbitant, oppressive royalty, involving the bulk of the industry with a corresponding raise of the manufacturer's and retailer's selling prices of the licensed machines.

It is unnecessary for us to consider the other reasons urged by defendant for reversal of the preliminary injunction.

For the reasons stated, we hold that the court erred in granting the injunction *pendente lite* and that the order granting it should be reversed. Of course this cause may proceed to trial on the merits, unaffected by the findings of fact and conclusions of law heretofore made and entered into by that court in this case.

Order reversed.

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[1] Ampto, Inc., F. G. Ludwig, Inc., General Photo Products Co., Inc., Remington Rand Division of Sperry Rand Corp., Copease Corporation, Copycraft, Inc., Nashua Corporation, Speed-O-Print Business Machines Corporation, The Mullen Company, International Photocopy Corporation, Savin Business Machines Corporation, General Aniline and Film Corporation, Pacific Copy Corporation, Kenro Corporation, Inter-Continental Photocopy Corporation, and Formfoto Manufacturing Company.

APPENDIX III

Decision of District Court, 257 F.S. 192 (June 20, 1966)

MEMORANDUM OPINION

MAROVITZ, District Judge.

Memorandum Opinion Embodying Findings of Fact and Conclusions of Law.

This case came on for trial on October 12, 1965. Following the closing of evidence seven days later, the parties commenced submission of numerous briefs, exhibits, letter and proposed findings of fact. Additional briefs were filed thereafter with respect to the March 3, 1966 ruling of the Seventh Circuit Court of Appeals reversing the issuance of a preliminary injunction herein. We have fully considered the evidence and supplemental papers filed to date, and hereby render the following opinion based thereon:

This is an infringement action arising under U. S. Patent No. 2,657,618 issued November 3, 1953 to one Dr. Walter Eisbein covering a machine constructed to develop photocopies by means of the diffusion-transfer-reversal process (hereinafter, DTR). Claims 1, 5, and 11 of said patent are in suit. Plaintiff herein is the American Photocopy Equipment Company, (APECO), an Illinois corporation, engaged in the manufacture and sale of office photocopying machines and supplies. Defendant Rovico, Inc., is a New Jersey corporation engaged, as a competing concern, in similar activities.

The Eisbein Patent at issue has been litigated extensively, primarily in Copease Mfg. Co. v. APECO, (7th Cir., 1961) 298 F.2d 772; Copease and APECO v. Cormac Photocopy Corp. and Anken Chemical and Film Corp.,

(D.C.N.Y., 1965) 242 F.Supp. 993; and APECO v. Ampto, Inc., (N.J.App.Div., 1964) 140 U.S.P.Q. 616. In *Copease* and *Anken*, infringement suits brought in the Seventh and Second Circuits, respectively, the Courts independently held the Eisbein patent valid. Indeed, in *Anken*, the Court found that all nineteen of the Anken machines were infringing plaintiff's patent, including the "Anken 12" and "Anken 27" DTR Processors, which were supplied by the present defendant and which are among the machines accused herein. It should be noted further that after the Court's ruling in the Seventh Circuit litigation, APECO, plaintiff herein, and defendant there, purchased the entire capital stock of Copease Mfg Co., for the sum of $5,450,000 (Stp. of Oct. 25, 1965), including the Eisbein patent and licenses previously granted thereunder. APECO thus assumed prosecution of the remaining suits.

The DTR process involves two basic steps—exposure and development. In essence, a photosensitive emulsion on a negative sheet is initially exposed to the original sheet to be copied. Thereafter, the exposed grains of silver halide on the negative are reduced to metallic silver, and the unexposed grains are diffused through the emulsion of the negative and transferred to that of a non-photosensitive positive sheet containing nucleating agents which attract these unexposed grains and catalyze their reduction to metallic silver to form a positive image. (Tr. pp. 257-262; Copease v. APECO, supra, 298 F.2d at p. 774).

The Eisbein patent at issue discloses and claims a machine for performing the development stage alone (Tr. pp. 22, 45-46, 56-57). In essence, the machine includes three elements:

a) a casing in which developer liquid is contained at a given level, said casing having an inlet opening above the liquid level for the insertion of sheets to be treated;

b) a pair of rollers contacting one another along a line located above the liquid level which press the emulsions of the two sheets together for transfer of unexposed silver halide particles, remove excess liquid from the sheets, and convey the adhering sheets out of the machine; and

c) guide means for conveying the sheets on curved paths from the inlet opening beneath the level of the liquid, and then upward to the rollers, and separating same until immersion into the liquid, so that the emulsions on the inner faces are wetted fully before pressing by the rollers (Tr. pp. 265-270).

This Court must decide three ultimate questions—whether the Eisbein patent is valid—whether the claims of said patent cover the machines manufactured and sold by defendant, and whether plaintiff through its licensing procedure, has violated the anti-trust laws and thus should be precluded from enforcing the patent in suit. These three areas may be entitled, for the purposes of this opinion, as *Validity, Infringement,* and *Misuse.*

I *Validity*

We are satisfied, initially, that the finding of validity by the Seventh Circuit Court of Appeals in Copease v. APECO, supra, is binding upon this Court in the absence of persuasive new evidence of invalidity, Cold Metal Process Co. v. E. W. Bliss Co. (6th Cir., 1960) 285 F.2d 231, 244; Lehman Co. of America v. Appleton Toy & Furniture Co. (7th Cir., 1945) 148 F.2d 988, 989-990, de-

spite the difference in parties. In addition, where the prior decision of validity and infringement is in a different circuit, as *Anken,* supra, it is to be considered "strongly persuasive." Cold Metal Process Co. et al. v. Republic Steel Corp. (6th Cir., 1956) 233 F.2d 828, 837; Minn. Min. & Mfg. Co. v. Permacel-LePage's Inc., (D.C.Ill., 1963) 222 F.Supp. 540, 547. We are of the opinion that defendant herein has failed to introduce any evidence which substantially contradicts the *Copease* findings in the Seventh Circuit, and/or "strongly persuades" this Court that the patent in issue is invalid.

In support of its assertions of invalidity, defendant relies on four items of prior art, the Agfa machine, described in French Patent No. 879,995 (Def. Ex. Y-8) and in a drawing sent by Agfa to four designing companies (Def. Ex. Y-4a); Page 83 of Von Biehler's Handbuch der Fotokopie (Def. Ex. W); Edwards U. S. Patent No. 381,226 (Def. Ex. C-1); and Pollak U. S. Patent No. 717,021 (Def. Ex. C-1). These four references have all been previously considered in earlier decisions and found not to invalidate the Eisbein patent.

The Agfa machine, the only reference relating to the DTR Process, was considered by the U. S. Patent Office before it granted the Eisbein patent (Def. Ex. A, p. 32), by the Seventh Circuit Court of Appeals in *Copease* (298 F.2d at pp. 774, 777, 778), and by the District Court for the Southern District of New York in *Anken* (242 F.Supp. at pp. 996, 1000-1001), and found not to anticipate said patent. We find no justification in the evidence before us to differ.

The Agfa machine which includes a large rotatable drum and a series of endless belts supported on three or four

rollers, unlike the Eisbein invention, was found to be "unfit for commercial use," due to its large size, large liquid capacity, and frequent need for adjustment. (298 F.2d 774-775, 777-778). The structural differences between the Agfa and Eisbein patents, detailed by the Court of Appeals in *Copease* (298 F.2d 777-778), were demonstrated here as well, by plaintiff's expert witness, Mr. Hill. (Tr. pp. 1109-1112). In addition to the aforesaid crucial distinction between the contacting rollers approach of Eisbein, and the drum and endless belt device claimed by Agfa, the latter clearly performed a different sequence of operations from that performed by the Eisbein machine. That is, while the sheets are held together under pressure during most of the immersion process in the Agfa device, Eisbein proposed that they move through the liquid separately (298 F.2d 777-778) and not be pressed together until emergence. In this manner, Eisbein prevented blurring of the image from slippage (Tr. pp. 1105-1106), and wrinkling from expansion, (Tr. pp. 811-812).

Similarly, defendant can get little support from the Von Biehler publication. While this item is the only reference that was not before the Court in *Copease,* it was cited and discussed in the *Anken* opinion (242 F.Supp. 1003). It is apparent that the Von Biehler machine was intended to be used in developing a single sheet of photographic paper. Defendant, however, suggests that the machine might be used in the DTR Process, by bypassing the input rollers. As plaintiff's expert witness, Hill, demonstrated, however, defendant's theory would require that the two sheets be inserted perpendicularly to the bottom guide or tray, which might well lead to buckling, (Tr. pp. 1118-1121). Further, it is apparent that defendant's

proposed method would require extremely difficult manipulation, and clearly was not suggested by Von Biehler. Defendant cannot modify Von Biehler's device in the light of what Eisbein subsequently disclosed. Such modification, when the maker did not intend same, cannot be said to raise the original device to the status of an invalidating anticipation of the patent in suit. Young Radiator Co. v. Modine Mfg. Co., (7th Cir., 1931) 55 F.2d 545, 547. The Eisbein Claims, in the opinion of this Court, do not read on the Von Biehler disclosure, (Tr. pp. 903 et seq.).

The Edwards patents, considered by the Seventh Circuit Court of Appeals in *Copease,* and dismissed (298 F.2d 779), relate to massive machines used for galvanizing or tin plating steel sheets (Tr. p. 968), and could not be utilized in the DTR development process. That is, even if the apparatus were scaled down, it is apparent that the guide means would support only the lateral edges of the sheets (Tr. pp. 1122-1123). While this was necessary for the treating of metal sheets (Tr. pp. 1125-1128), it would be manifestly improper for feeding limp sheets of wet paper which would not be adequately supported. (298 F.2d 779).

Finally, we reach the Pollak patent which was before both the *Copease* and *Anken* Courts. As the Court of Appeals for the Seventh Circuit concluded, this patent does not disclose the feeding of two sheets simultaneously through a liquid as specifically recited in the Eisbein Claims, it being intended for use in development of a single sheet of photographic film or paper. Further, Pollak discloses no means for separating sheets until they have been wet by the liquid as called for in Eisbein Claims. (298 F.2d 778; 242 F.Supp. 1001). The correctness of these

prior findings was corroborated by the evidence received herein (Tr. pp. 1055-1058).

It is thus clear that there has been no "anticipation" of the claimed invention by any single disclosure made in defendant's proposed prior art, (Sec. 102, Title 35, U.S.C.). Thus, the patent must be considered valid if,—pursuant to Sec. 103, Title 35, U.S.C., and the decision of the U. S. Supreme Court in Graham et al. v. John Deere Etc. et al., 383 U. S. 1, 86 S.Ct. 684, 15 L.Ed. 2d 545 (Dec. Feb. 21, 1966),—the differences between the patented subject matter and the prior art are such that the subject matter as a whole would not have been "obvious" at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. This Court is of the opinion that the instant patent is not defeated by "obviousness." That is, we are convinced that the Seventh Circuit Court of Appeals applied the traditionally proper statutory and judicial tests of patentability codified in Section 103, by relying on Great Atlantic & Pacific Tea Co. v. Supermarket Corp., 340 U.S. 147, 71 S. Ct. 127, 95 L.Ed. 162 (1950), and Hotchkiss v. Greenwood, 11 How. 248, 13 L.Ed. 683 (1850), and that the decision of the U. S. Supreme Court in *John Deere*, supra, did not affect the correctness of the *Copease* result.

As did the *Copease* Court, we have initially looked to the scope of the prior art, and have specified the differences between that development and the claims at issue. The level of ordinary skill in the pertinent art at the time the invention was made, has also been considered by this Court with regard to the 1939 invention of the DTR Process by Agfa and Gavaert (Tr. pp. 253-255; 298 F.2d 773)

and the repeated failure thereafter to develop a practical mode of operation for office use (298 F.2d 774, 775-776; 242 F.Supp. 996-997, 1008, 1010).

After consideration of the evidence offered herein, we must conclude both on the basis of the *Copease* precedent, and our own independent analysis, that the invention at issue could not have been "obvious" within the meaning of Section 103.

Defendant further contends that the patent is invalid because the Claims are "broader than the invention" in that Eisbein disclosed a machine that requires all of the sheets to be kept separate until they reach the rollers, while his claims are broad enough to cover machines in which the separator guide plate is cut so short that it only separates the sheets until they have entered the processing liquid, (Tr. pp. 464-466).

Without reaching the question of whether this same argument was considered by the New Jersey Court in *Ampto,* supra, a fact never clarified at trial, we must conclude that defendant's argument cannot stand.

It is our understanding that the "Claims" of a patent application can never be broader than the "invention," as the latter is in fact defined by the former. That is, broadening of Claims may increase the risk of anticipation by prior art, by expanding the invention, or make a prior use defense more available, but does not of itself cause invalidity. Binks Mfg. Co. v. Ransburg Electro-Coating Corp. (7th Cir., 1960) 281 F.2d 252, 256; Aerosol Research Co. v. Scovill Mfg. Co., (D.C.Ill., 1963) 137 U.S.P.Q. 701, 724. Even if defendant's argument is to be

interpreted as a contention that claims broader than the specifications and drawings cause invalidity, it must fail. Under Section 112, Title 35, U.S.C., the inventor is required to set forth the *best mode* contemplated to carry out the invention. Thus the claims are, by necessity, always broader than the specifications and drawings. If defendants's arguments were valid, plaintiff would have to submit innumerable drawings of devices covering every conceivable length, of center separator guide plate. This clearly was not envisioned by Section 112, which calls only for specifications describing the "best mode," rather than "all modes," or all possible embodiments of the invention. There is no inconsistency between the claims herein and the specifications. Thus, defendant's position is unsound.

We have duly considered defendant's further arguments, and conclude that the term "slideways" appearing in Claim 5 clearly relates to the paths sided by the guiding means,—that Claim 1 is not so vague and indefinite as to be unpatentable, and that the Eisbein patent Claims were narrowed by amendment during the prosecution of the patent claims and not broadened.

Accordingly, we must hold that the Eisbein patent is good and valid in law.

II. *Infringement*

Defendant herein has made and sold six different models of photocopying machines (Pl. Ex. 13), all of which are charged to infringe:

1) The "Fotomate" (Discontinued Model) (Pl. Ex. 4, 7;

2) The "Fotomate" 10-inch Deluxe (Pl. Ex. 8, 17A, 17B, 17C);

3) The "Fotomate" 15-inch Deluxe;

4) The 12-inch Processor (Discontinued Model) (Pl. Ex. 18, 18A, 18B);

5) The 12-inch Processor (Present Model) (Pl. Ex. 9); and

6) The 27-inch Processor (Pl. Ex. 19, 19A, 19B).

These six devices can be classified into three categories for purposes of discussion: (a) The three Fotomate models which are complete photocopying machines including both the unpatented exposure machinery and the developing apparatus, and which differ only in the shape of the housing and in width; (b) the current 12 and 27-inch Processors (Items 5 and 6 above) which develop only, and are identical except for width; and (c) the discontinued original 12-inch processor model. The constructions referred to in Items (b) and (c) were directly involved in the New York *Anken* litigation as the "Anken 27" and "Anken 12" machines respectively (Pl. Ex. 11) and were found to infringe the Eisbein patent.

There was ample evidence offered at the trial of this cause to demonstrate that each of the three classes of accused machines falls within the language of the Claims at issue, 1, 5, and 11. (See Tr. pp. 298-308; 316-322; 322-324).

Apparently recognizing this, defendant contests the literal application of only three portions of the Claims to its machines, to wit:

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1) "• • • means extending from such opening (inlet) to a point adjacent the rolls for engaging and guiding the outsides of strips • • •" (Claim 1);

2) "• • • substantially parallel guiding means • • • (Claim 5); and

3) "• • • at least two superposed curved slideways • • • leading to the set of rollers." (Claim 5).

In each of the three accused constructions the lower guide extends all the way from the inlet opening to the rollers (Tr. pp. 308, 375) and in the discontinued 12" Processor (Category "C"), the upper guide extends full length, as well, (Tr. pp. 306-307). In the "b" category, current processors, the upper plate extends downward to the lowest point of immersion, and half the distance from that point up to the rollers, and in the Fotomate machines (Category "a"), it extends all the way down, and one-fifth of the distance upward.

In *Anken,* the New York District Court held that the language in Claim 1 was satisfied by machines having even shorter guide means than those present in the Rovico constructions (242 F. Supp. 1011). The New Jersey Court, in *Ampto,* supra, faced with machines with guides extending only to the low point of travel, and not upwards, held said devices to infringe Claim 1, but based its decision on the "doctrine of equivalents," holding that the upper guides there, although shorter, performed their function in substantially the same manner as the Eisbein guides, with no difference in result. (140 U.S.P.Q. 626-629).

While we may rest our decision on either theory alternatively, and do so, we lean more to the *Anken* view, concluding that all three constructions containing lower guide

means running the whole route from inlet to rollers, and upper means running 100, 75 and 60 percent respectively, read literally on the language of Claim 1 at issue. That is, in all three machines, guide means of some nature conduct the two sheets the entire distance from the opening to the rollers, which is all that is required. The shortening of the upper guide alone does not produce any significant variation in the paths of the sheets which naturally follow the lower guide curvature anyway, and does not affect the mode of operation of the machine or results obtained, (Tr. pp. 308-313). The full extension of the lower guide means to the rollers, after the upper plates have directed the sheets downward satisfies the language at issue.

We are further satisfied from the evidence and exhibits presented to this Court that the guiding means in each of the accused machines are "substantially parallel" within the meaning of Claim 5. It is apparent that in all three of the categories set forth above, the sheets are inserted simultaneously in the inlet opening and move in generally parallel paths through the solution to the rollers where they are pressed together. The sheets achieve this "parallel" trip by means of the plates which extend in the same general direction and serve as guides. While the guide plates are not perfectly straight, and are not at all times equidistant from each other, it must be remembered that the claims do not call for absolute parallelism, but only for a "substantial" degree thereof. The guide means follow the same general downward curve and maintain a substantially similar spatial distance between each other at all points, keeping both inserted sheets immersed in the liquid, and then guiding them upward to the rollers. We believe that such constructions were intended to fall within

Claim 5, as differentiated from those machines in which the two sheets are inserted into opposite side and move toward rollers located at the center of the machine (Tr. pp. 1090-1091). As the New York and New Jersey Courts which considered this precise question, we find that infringement is present. (See 140 U.S.P.Q. 629-630; 242 F.Supp. 1011).

Finally, it is clear to this Court that each of the accused machines contains at least two superposed curved slideways *leading* to the set of rollers. While the separator plates do not *extend* all the way to the rollers, as defendant argues, they do *lead,* or "direct" the sheets to the rollers. As the *Ampto* Court concluded at pp. 630-631 (140 U.S.P.Q.), this is all that is demanded by Claim 5, slideways which conduct the photographic sheets to the rollers on the course described in the Claims.

In addition to the literal reading on the Claims just discussed, we find it abundantly clear that each of the Claims would be infringed under the "doctrine of equivalents" if such literal readability were absent. Indeed, counsel for defendant conceded at trial that the patented apparatus and the accused machines "perform substantially the same function in substantially the same way (to achieve) substantially the same result." (Tr. pp. 464-465), —the traditionally accepted definition of an equivalent device. See Graver Tank Co. v. Linde Air Products Co., 339 U.S. 605, 607—608, 70 S.Ct. 854, 94 L.Ed. 1097 (1950).

We cannot accept defendant's further argument that the Eisbein Claims can not read on the accused Rovico machines because, as amended, the Claims have to be given the same meaning they had before amendment, under the

doctrine of file wrapper estoppel. File estoppel, which prevents a patentee from seeking the benefit of a rejected claim once he has acquiesced to that rejection by amendment, arises only when an amendment has been filed to overcome a rejection based on prior art. Ekco Products Co., Inc. v. Chicago Metallic Mfg. Co., (7th Cir., 1965) 347 F.2d 453, 454. In the instant case, the amendment of claims which ultimately issued as Claims 1 and 5 were not filed to avoid the Agfa prior art reference, and indeed, in this Court's opinion, the original claims did not read on the Agfa machine. We therefore must reject defendant's argument as did the Court of Appeals in *Copease.*

Accordingly, we shall hold that defendant has infringed Claims 1, 5, and 11 of the Eisbein patent by making and selling each of the aforementioned six accused models.

III *Misuse*

Defendant finally contends that the Eisbein patent in suit in unenforceable because of its unlawful licensing use by the plaintiff in violation of the anti-trust laws of the United States, whereby (a) plaintiff derives its royalties from unpatented machines, and (b) plaintiff charges price-fixing royalties based on retail list prices. That is, defendant asserts that by its licensing policy of charging a 6 per cent royalty on the retail selling price of all machines manufactured by licensees utilizing the Eisbein patent, APECO has, in effect illegally charged royalties on the unpatented exposure devices contained therein, and further, has unlawfully set the minimum price at which photocopying machines produced thereunder can be sold. In support of the latter allegation, defendant contends that

the 6 per cent retail based royalty referred to above, is actually 12 per cent of the manufacturing cost of the whole machine, and 24 per cent of the patented portion thereof (Tr. pp. 65-66).

We will not accept this argument. The evidence adduced at trial clearly demonstrates that APECO acquired the Eisbein patent after it was adjudged an infringer thereof in the *Copease* litigation, and continued the licensing policy entered into by its predecessor,—a uniform charge of 6 per cent of the retail sales of machines embodying the patented invention. It is further apparent that APECO paid $5,450,000 to purchase the patent, which figure, less $924,000 it has received in royalties and damages from infringers, totals $4,526,000, or 12½ per cent of its total DTR sales in the United States. Under defendant's reasoning, plaintiff has thus paid *50* per cent of its manufacturing cost of the patented device to Copease for the right to manufacture and sell machines which embody the Eisbein patent (Post Trial Stip., Par. 1, Exs. A & B). In addition, it is clear that the royalties charged licensees are payable on the sales of machines alone, and not on paper and chemical supplies which flow from the machine sales. These sales gross two to three times more income for licensees than is produced by the machines alone (Tr. pp. 1243-1244). Further, the evidence clearly demonstrates that APECO has charged a uniform royalty to all licensees so as not to grant to any recipient, any competitive advantage (Tr. p. 1225), that prices of DTR machines have *declined* since 1962 when APECO acquired the Eisbein patent (Tr. pp. 1245-46, 1218), and that DTR process machines account for only 10 percent of the photocopying machine market, of which plaintiff's sales amount to 15 per cent, or

1½ per cent of the total, (Tr. pp. 1249, 1247; Post Trial Stip. Ex. A).

From these facts, we must conclude that APECO has not misused its patent by engaging in licensing practices which run afoul of the anti-trust laws, as charged by defendant.

We cannot assume that there exist restrictions against "unreasonably high royalties," absent any proof of favoritism or conspiracy to fix prices, neither of which has been inferred, much less proven herein. Where a patentee is certainly free not to license at all, we fail to see how competition is restrained by charging high royalties. Indeed, such licensing, if not beyond the scope of the patent grant, should be encouraged under anti-trust principles, as an alternative to monopoly, which would otherwise be present. The free competitive market place has built-in controls such as supply and demands to limit the royalties charged by a prospective licensor. There is no indication that further controls are justified. Indeed, the case law is uncontroverted to the effect that it is not a violation of the anti-trust laws for a patentee to grant a license under his patent *for any royalty* or upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure. This, of course, is not to say that the patentee is free to expand his statutory monopoly, as where royalties are to be paid after the patent has expired. United States v. General Electric Co., 272 U.S. 476, 47 S.Ct. 192, 71 L.Ed. 362 (1926); United States v. Huck (D.C. Mich., 1964) 227 F.Supp. 791, 803, affd. 382 U.S. 197, 86 S.Ct. 385, 15 L.Ed.2d 268 (1965).

Even assuming however, that a royalty may be unlawful because of its magnitude, and we do not adopt that position, we cannot consider that 6-12-24 per cent royalty charged herein to be oppressive. See Malleable Iron Range Co. v. Lee, (7th Cir., 1920) 263 F. 896, cert. den. 251 U. S. 562, 40 S.Ct. 342, 64 L.Ed. 415 (1920), approving a royalty of 26%; Temco Electric Motor Co. v. K. W. Ignition Co., (6th Cir., 1922) 283 F. 873, 879, cert. den. 260 U.S. 746, 43 S.Ct. 247 (1923), approving a 23½% royalty; National Rejectors v. ABT Mfg. Corp. (7th Cir., 1951) 188 F.2d 706, 710, cert. den. 342 U.S. 828, 72 S.Ct. 51, 96 L.Ed. 626 (1951). Where the evidence is clear that the licensor itself has paid an amount equal to twice the royalty charged for the same rights of manufacture and sale, said licensor should not be precluded from assessing the rates charged. The licensees have more than made up these charges through sales of paper and chemicals to be used with their machines; which in effect bring their assessment down to less than 2 per cent of total sales arising out of their licenses. Further, and of great importance it has been proved that the retail selling price of the DTR Processors has *declined* since APECO assumed ownership of the Eisbein patent, and that APECO's share of the photocopy market has dropped drastically. While it is axiomatic that any additional cost of manufacture will affect price or profit and thus, that any royalty will have a similar effect, it is noteworthy that here, the alleged "oppressive" royalty has been absorbed by the licensees, and that prices on the retail level have been reduced.

We must, therefore, conclude that there is no evidence whatsoever in the trial record to prove that the royalties charged by plaintiff have tended to *unlawfully* fix prices, extend a monopoly or restrain competition.

Similarly, we can find no rationale to support defendant's argument relating to "tying." While APECO's royalties are charged as a percentage of the retail selling price of the whole photocopying machine, developing and exposure devices alike, it would seem illogical to this Court to conclude that APECO thus expanded its patent monopoly to include a non-patented device. By defendant's own reasoning, with regard to the alleged exorbitant royalty rate, licensees are paying 24 per cent of the manufacturing cost of the patented device alone. This is what was bargained for in dollars and cents, and this is what was received, a royalty payable on the patented device alone, but computed on the price of the whole machine. Whether the royalty is stated as 6 per cent of the retail price of the entire machine, including the non-patented device, or 12 per cent of the retail price of the Eisbein apparatus alone is not essential, for the result is precisely the same . . . . a specified charge for the right to manufacture under the patent at issue. The means of computing same should be of no import. As the U. S. District Court for the Northern District of Ohio stated in Ohio Citizens Trust Co. v. Air-Way Elec. Appliance Corp., (D.C.Ohio, 1944) 56 F.Supp. 1010:

> "No case has been cited, and we have been able to find none, holding that the amount of royalty to be paid under a license agreement may not be measured by a rate or percentage calculated upon the sales of completed devices, parts and accessories, contemplated to be manufactured under the patents involved, irrespective of whether such sales include items which do not come within the claims of the licensed patents."

See also: American Optical Co. v. N. J. Optical Co., (D.C. Mass., 1944) 58 F. Supp. 601. Indeed, the Seventh Circuit

Court of Appeals, in affirming Judge Win Knoch, then of the District Court, stated in Hazeltine Research v. Avco Mfg. Corp., (7th Cir., 1955) 227 F.2d 137, cert. den. 350 U.S. 987, 76 S. Ct. 474, 100 L.Ed. 854:

> "• • • royalties are payable on total production of radio and television receivers, regardess of the extent to which the licensee uses any Hazeltine patent." (227 F.2d at p. 147)

Accord: Automatic Radio Co. v. Hazeltine, 339 U.S. 827, 833, 836 (1950); Hazeltine Research v. Admiral Corp., (7th Cir., 1950) 183 F.2d 953. In the latter case, the Court approved a royalty based upon an entire television broadcast receiver even though the patent was directed to a small feature thereof.

> "There are two provisions of Hazeltine's license agreements principally relied upon • • • (1) the exaction of royalty on entirely unpatented products made by plaintiff's licensees • • •.
>
> "It is our conclusion that the misuse charge made by Admiral must be rejected."

Defendant finally argues that under the March 3, 1966 ruling of the Seventh Circuit Court of Appeals, reversing the issuance of a preliminary injunction herein, that plaintiff may not enforce the patent at issue. We do not agree. That decision, as we read it, was limited to the state of the record as it stood on June 11, 1965, including Rovico's allegations of price fixing, Robert Vinci's affidavit in support thereof, and plaintiff's incomplete denial, the opinion being based on "defendant's *undisputed* showing of an exorbitant, oppressive royalty, involving the bulk of the industry, with a corresponding raise of the manufacturer's and retailer's selling prices of the licensed machines."

That "showing" is no longer undisputed. This Court is satisfied from the evidence introduced at trial that the royalty at issue is neither exorbitant nor oppressive, that the bulk of the office photocopying industry is not involved, and that the selling prices of the licensed machines have indeed declined. The evidence clearly demonstrates that there has been no price-fixing herein with the exception of that necessarily incident to any royalty charge; that no illegal "tying" is present, and that no restraint on competition has resulted from APECO's licensing policies.

The Court of Appeals instructed this Court to proceed to trial of this case on the merits. We have done so, and have concluded on the evidence, that plaintiff is not guilty of patent misuse as charged.

All additional arguments made by defendant, and not discussed herein, have been duly considered and denied.

Accordingly, it is the judgment of this Court that plaintiff, pursuant to Sections 283, 284, Title 35, U.S.C., is entitled to (1) a permanent injunction restraining defendant from making, using and/or selling any of the accused machines; (2) damages adequate to compensate for defendant's past infringement, and (3) taxable costs.

Upon detailed consideration of the evidence adduced, briefed arguments, and surrounding circumstances, we further hold that defendants should not be held in contempt of court for the alleged sale of infringing photocopying machines after entry of the June 14, 1965 preliminary injunction by this Court, and that no award of treble damages and attorneys' fees pursuant to Section 285, Title 35, U.S.C. shall be entered.

APPENDIX IV

Judgment of District Court (June 28, 1966)

This cause having come on to be heard by the Court sitting without a jury, and the Court having heard the testimony presented from October 7 through 19, 1965, and having considered the documentary evidence offered and received, the stipulations of fact submitted, the pretrial and post-trial briefs filed, and the various other documents submitted during the course of and after the trial,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

1. That this Court's memorandum opinion read in open court on June 20, 1966, a copy of which is attached hereto, shall stand as the Court's Findings of Fact and Conclusions of Law;

2. That the patent in suit, United States Letters Patent 2,657,618 issued November 3, 1953 upon application of Walter Eisbein and entitled *Developing Apparatus,* is owned by plaintiff and plaintiff is entitled to sue for infringement thereof and recover damages therefor;

3. That United States Letters Patent 2,657,618 is valid in law and claims 1, 5 and 11 thereof were, and are, infringed by each of the defendant's devices herein accused;

4. That defendant, its officers, agents, employees and servants should be, and hereby are, permanently enjoined from further infringement of United States Letters Patent 2,657,618, either directly or indirectly, and are prohibited from making, using or selling any of the accused devices or any other device which infringes any claim of the afore-

said letters patent or aiding or abetting others in the making, using or selling of such devices;

5. That plaintiff shall recover from defendant its damages for past infringement, the amount of which damages are to be determined by a special master after an accounting. The amount of damages shall not be less than a reasonable royalty which is 6% of the retail selling price of all devices used, manufactured or sold by defendant which embody the invention claimed in United States Letters Patent 2,657,618;

6. That this Court shall retain jurisdiction of this cause for the purpose of appointing a special master to conduct the accounting to determine the amount of damages and interest payable, and for the purpose of reviewing the special master's report;

7. That the plaintiff has not engaged in practices violative of the anti-trust laws, nor has it misused United States Letters Patent 2,657,618 as alleged by defendant; and, accordingly, defendant's anti-trust counterclaim should be, and hereby is, dismissed with prejudice; and

8. Plaintiff shall recover its costs to be taxed by the Clerk of this Court and each of the parties shall bear its own attorneys' fees.

Enter:

ABRAHAM L. MAROVITZ
Judge

Dated: June 28, 1966

APPENDIX V

Defendant's Notice of Appeal (June 28, 1966)

IN THE

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

No. 62 C 2080

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,

Plaintiff, Counter-Defendant

vs

ROVICO, INC.,

Defendant, Counter-Plaintiff

Defendant, Counter-Plaintiff Rovico, Inc. respectfully appeals to the United States Court of Appeals for the Seventh Circuit from the final judgment of this United States District Court for the Northern District of Illinois, Eastern Division, dated and entered herein on June 28, 1966.

Defendant further appeals from all rulings of the District Court that excluded evidence or testimony which defendant sought to introduce, all other rulings of the Court adverse to defendant, and the Court's refusal to

Appendix V—Defendant's Notice of Appeal (June 28, 1966)

accept defendant's offers of proof made pursuant to the judgment of the Court of Appeals entered March 3, 1966.

Dated: June 28, 1966.

WALLENSTEIN, SPANGENBERG, HATTIS & STRAMPEL
Attorneys for Defendant, Counter-Plaintiff
135 South La Salle Street
Chicago, Illinois 60603

By SIDNEY WALLENSTEIN

SAMUEL J. STOLL
Of Counsel
Empire State Building
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To:

Clerk of the United States District Court
For the Northern District of Illinois
Eastern Division

RAYMOND, MAYER, JENNER & BLOCK, Esqs.
ANDERSON, LUEDEKA, FITCH, EVEN & TABIN, Esqs.
CURTIS, MORRIS & SAFFORD, Esqs.
Attorneys for Plaintiff, Counter-Defendant

Service of the foregoing Notice of Appeal is hereby acknowledged this ..... day of June, 1966.

.....

One of the Attorneys for Plaintiff-
Counter-Defendant

APPENDIX VI

Decision of Court of Appeals (August 22, 1967)

IN THE

UNITED STATES COURT OF APPEALS

FOR THE SEVENTH CIRCUIT

No. 15905 SEPTEMBER TERM, 1966 APRIL SESSION, 1967

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,
Plaintiff-Appellee,

v.

ROVICO, INC.,
Defendant-Appellant.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS, EASTERN DIVISION.

August 22, 1967

Before SCHNACKENBERG, KNOCH and KILEY, *Circuit Judges.*

KILEY, *Circuit Judge.* Defendant Rovico appeals from a decision holding American Photocopy Equipment Company's (Apeco) Eisbein patent[1] valid and infringed, and

[1] The Eisbein Patent has been litigated extensively primarily in *Copease Mfg. Co. v. American Photocopy Equip. Co.*, 298 F.2d 772 (7th Cir. 1961); *Copease Mfg. Co. v. Cormac Photocopy Corp.*, 242 F. Supp. 993 (S.D.N.Y. 1965); *American Photocopy Equip. Co. v. Ampto, Inc.*, 82 N.J. Super. 531, 198 A.2d 469, 140 U.S.P.Q. 616 (App. Div. 1964). The decision of the lower court in this case is reported at 257 F. Supp. 192 (N.D. Ill. 1966).

rejecting Rovico's misuse defense and antitrust counterclaim. We affirm.[2]

The Eisbein patent No. 2,657,618, issued November 3, 1953, covering a device for developing photocopies by means of the "diffusion-transfer-reversal" process known as DTR. The patent is now owned by Apeco, an Illinois corporation engaged in the manufacture and sale of office photocopying machines. Rovico is a New Jersey competitor of Apeco. The patent was before this court previously in *Copease Mfg. Co. v. American Photocopy Equip. Co.*, 298 F.2d 772 (7th Cir. 1961). After that decision Apeco acquired the patent from Copease.

The DTR process begins by making a negative copy of the original sheet by exposing the photosensitive emulsion on the negative sheet to the original sheet. In the second step the negative is moistened with a chemical "developer" liquid and pressed face-to-face against a coated positive sheet. When the sheets are separated, an image of the original remains on the positive sheet.[3]

The patent in suit involves a device to implement the second step of the DTR process. The three basic elements of the device are (1) a casing containing the developer liquid with an opening above the liquid for insertion of the negative and postive sheets, (2) guides for keeping the sheets apart and conveying them through the liquid and up to (3) a pair of contacting rollers above the liquid that cause the chemical transfer from the negative to the

---

[2] Apeco's motion to strike part of the record on appeal was taken with the case. The motion is allowed in an order being filed simultaneously with this opinion.

[3] A detailed explanation of the process can be found in *Copease Mfg. Co. v. American Photocopy Equip. Co.*, 298 F. 2d at 774, n.4.

positive sheet, press excess liquid from the sheets and convey the sheets out of the casing.

Validity

The district court decided the patent was valid under the court's decision in *Copease Mfg. Co. v. American Photocopy Equip. Co.*, 298 F.2d 772 (7th Cir. 1961), in the absence of "persuasive new evidence" of invalidity not before the court in that case. Rovico contends that the record and issues here materially distinguish *Copease* and would have compelled a finding of invalidity if the district court had not excluded new and "crucial" evidence offered by it, ignored evidence admitted, and denied it the right of cross-examination with respect to the *Copease* record. It has the burden of persuading us of the material distinction between this case and *Copease*, and it has not done so.

There is evidence in this record which is not in the *Copease* record including twenty-two exhibits, but we do not regard it as "persuasive."

Rovico claims error in the district court's exclusion of three depositions taken for the *Copease* trial but not used there. Rovico contends that they should have been admitted here because the deponents were Apeco's witnesses or cross-examined by Apeco in *Copease*. It relies upon *Insul-Wool Insulation Corp. v. Home Insulation, Inc.*, 176 F.2d 502 (10th Cir. 1949), where the district court permitted defendant Home to introduce depositions taken for other defendants in other infringement suits. The Tenth Circuit approved the ruling as in accord with FED. R. CIV. P. 26(d) because Insul-Wool had the same

interest and motive for cross-examining the deponents in the previous cases. The court held that the determination of that interest and motive "ought to be left entirely to the trial judge." 176 F.2d at 503. See 5 WIGMORE, EVIDENCE §§ 1360-1366, 1371 (3d ed. 1940).

Here, however, Apeco's interest is the reverse of what it was in *Copease*, and the district court excluded the deposition. We find no reason to disturb the ruling as to Apeco's two witnesses in *Copease*. The deposition of the Copease witness was introduced in evidence and relied upon by this court to support validity in *Copease*. Thus, it cannot be relied on as "new evidence" to overturn the *Copease* decision.

We disagree with Rovico's contention that "admissions" and stipulations here distinguish *Copease*. The district court's function here was to determine whether there was an "admission" with respect to language in claim 1, and if so its effect in the light of all of expert Hill's testimony. The same is true of the significance of the stipulation that if the word "slideways" as used in the claim has the same meaning as in the specifications it "would make the claim meaningless."

We see no merit in the claim of error in the court's refusal to strike testimony of Apeco's expert because his knowledge of the operation of the Agfa machine was based on testimony of witnesses in the *Copease* trial. 2 WIGMORE, EVIDENCE § 665*b* (3d ed. 1940). There is no merit in Rovico's claim of error because the court would not permit impeachment by a deposition which expert Hill did not read and did not use in reaching his opinion. We have read the transcript references and find nothing in the rul-

ings but the district court's rightful concern to keep the examination and record relevant.

We conclude that the district court did not err in the rulings on admissibility of evidence or ignore or disregard evidence that was admitted.

Rovico contends that Eisbein patent is invalid because he did not invent contacting rollers and the device is a combination of old elements, obvious to those skilled in the art. Apeco concedes that Eisbein did not invent contacting rollers. We agree that the Eisbein patent is a combination of elements in the prior art, including contacting rollers. But the elements were inventively arranged to achieve an unobvious result. *Copease Mfg. Co. v. American Photocopy Equip. Co.*, 298 F.2d at 781-82.

Nor is the patent invalid because originally the claims called for separation of the negative and positive sheets in the liquid and amendments changed this to require separation only until they enter the liquid. The nub of this contention is that before the amendment which introduced short separator guides, the industry thought it essential to use separator guides which kept the sheets apart until they left the liquid, and that the amendment broadened the claims to include devices in which the sheets were in contact during immersion. The district court found that this argument "cannot stand" because the broadening of the claims per se did not invalidate the patent, that under 35 U.S.C. § 112 the inventor is required to set out in the specification the best mode of his invention and not all modes, and that there was no inconsistency in the claims and specifications. 257 F. Supp. at 196.

We are not persuaded that the court should have decided the contrary because of representations to the Patent Office by Apeco's employees in connection with its patent No. 2,786,401 or a 1951 letter of Agfa or because of the decision in *American Infra-Red Radiant Co. v. Lambert Indus., Inc.*, 360 F.2d 977 (8th Cir.) *cert. denied*, 385 U.S. 920 (1966). The amendment did not introduce a new element but modified the description of the center separator to clarify the original claims so as not to require the separator to extend all the way to the rollers.

There is no merit in Rovico's contention that the patent is invalid because the claims in suit were broadened by amendment to cover "single sheet wetting." Apeco concedes that claim 1 is broad enough to cover both single sheet and two sheet wetting. During the prosecution of the patent application it was explained to the Patent Office that generally wetting one sheet was sufficient since the essential was a layer of liquid between the two sheets when pressed together. Moreover, the accused devices here involve wetting of two sheets.

We conclude on the validity point that Rovico has not shown that the district court's findings of fact are clearly erroneous, or its conclusions from the findings are erroneous. The court did not err in ruling that there was no persuasive new evidence to remove this issue from this court's holding of validity in *Copease*.

Infringement

The district court found that there was ample evidence to demonstrate that Rovico's accused devices fell within Eisbein's claims 1, 5 and 11; that the guidemeans in the accused devices did not extend to a point adjacent the

rollers but that devices with guides even shorter than Rovico's had been held to read literally on the claims, *Copease Mfg. Co. v. Cormac Photocopy Corp.*, 242 F. Supp. 993 (S.D.N.Y. 1965); that in *American Photocopy Equip. Co. v. Ampto, Inc.*, 82 N.J. Super. 531, 198 A.2d 469, 140 U.S.P.Q. 616 (App. Div. 1964), shorter guides were held to infringe under the doctrine of equivalents; and that file wrapper estoppel had no application here since the amendment was not filed to overcome a rejection based on the prior art.

The only expert who testified on infringement was plaintiff's witness Hill. He testified that the accused devices have the same three elements—casing, guides and rollers —as plaintiff's Eisbein patent devices. On the main point urged by Rovico, the difference in length of guides, Hill testified that the upper guides in the accused devices do not extend as far as those in plaintiff's but that the lower guides in both extend all the way, and that in both, the guides perform the same function substantially the same way to accomplish the same result. The inference is that the shorter upper guide difference is of no significance.

We think that the district court was justified in finding that the amendments were not made to avoid the Agfa patent, and in finding that there was no basis for estoppel by the Eisbein file wrapper. Hill testified that the amendments did not materially change the scope of the claims in suit.

There is no merit in Rovico's contention with respect to the term "slideways" introduced by amendment into claim 5 to pluralize the term "slideway" originaly used. This contention presupposes the term "slideways" means the guide plates. We agree with Apeco that the pre-

supposition is invalid because the term as used means the paths formed by the "guidemeans." Apeco's witness thought assuming the terms meant the same thing was "impossible." But even if the terms were used interchangeably in the specification and claims, the district court apparently saw no significance; nor do we.

We conclude that the district court did not err in holding the patent infringed.

Misuse

Defendant finally argues that the patent in suit is unenforceable because Apeco violates the antitrust laws by charging royalties on the unpatented exposure part of the device and by basing its 6% royalty on retail list selling prices which result in allegedly oppressive royalties amounting to 12% of manufacturing cost of the entire machine and 24% of the cost of the patented part.

The district court found that the evidence clearly demonstrated there was no discrimination towards or competitive advantage granted to any licensee, that DTR retail prices have declined since 1962 and that Apeco's share of the office photocopy market has dropped drastically to 1½%. The court found no unreasonableness in the royalties charged per se. Licensees' sales of paper and chemicals to be used with the device reduces to 2% the royalty as applied to its total sales of the device and paper and chemicals. The court found no misuse in the alleged charging of royalties on the unpatented exposure part of the device, citing *Hazeltine Research, Inc. v. Avco Mfg. Corp.*, 227 F.2d 137 (7th Cir. 1955), *cert. denied*, 350 U.S. 987 (1956); and *Hazeltine Research, Inc. v. Admiral Corp.*, 183 F.2d 953 (7th Cir.), *cert. denied*, 340 U.S.

896 (1950). We are not persuaded the findings are clearly erroneous or the conclusion of non-misuse is erroneous. Rovico's heavy reliance on *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 (1944), is misplaced because there the competiton sought to be controlled by the patent was not the sale of the patented assembly "but merely competition in the sale of the unpatented thermostatic controls." 320 U.S. at 667.

The principal weakness in Rovico's contention is its reliance upon this court's decision in *American Photocopy Equip. Co. v. Rovico, Inc.*, 359 F.2d 745, (7th Cir. 1966), which reversed an interlocutory injunction issued against Rovico by the district court. The ratio decidendi was that "in view of the undisputed showing" of an "exorbitant, oppressive royalty, involving the bulk of the industry," the injunction was erroneously issued. There Apeco had not "frankly" replied to the Rovico charges about a matter Apeco must have known about. On that record the judgment was reversed. On remand the district court proceeded on the merits, rightfully finding that the decision on the injunction did not settle the issue, and properly making findings of fact and conclusions of law on the misuse issue.

We have considered other points raised by Rovico which we deem so meritless as to be unworthy of discussion.

AFFIRMED.

SCHNACKENBERG, *Circuit Judge,* concurring in part and dissenting in part.

I concur in Judge Kiley's opinion except as to that part entitled "Misuse". As to the latter part, I dissent. The record shows that the patented machine is made and sold in combination with unpatented machines installed in the same cabinet and that the royalty paid by the manufacturer, is based, not on the manufacturer's selling price of the patented machine, but on the retail selling price of the entire combination, patented and unpatented machines alike. Thus, although the royalty rate of 6% remains constant, the actual royalty, applied to the manufacturer's selling price, ranges between 24% and 136%. It has been demonstrated in this case that the patent privilege in this case is being used by plaintiff contrary to the public interest. *Mercoid Corp. v. Mid-Continent Company,* 320 U.S. 661, 669 (1944); *Morton Salt Co. v. Suppiger Co.,* 314 U.S. 488, 492 (1942).

A true Copy:

Teste:

Clerk of the United States Court of Appeals for the Seventh Circuit.

APPENDIX VII

Order of Court of Appeals on Motion to Strike (August 22, 1967)

UNITED STATES COURT OF APPEALS

FOR THE SEVENTH CIRCUIT

Chicago, Illinois 60604

August 22, 1967

Before

HON. ELMER J. SCHNACKENBERG, Circuit Judge
HON. WIN G. KNOCH, Circuit Judge
HON. ROGER J. KILEY, Circuit Judge

No. 15905

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,
Plaintiff-Appellee,

vs.

ROVICO, INC.,
Defendant-Appellant.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS, EASTERN DIVISION.

Plaintiff-appellee Apeco made a motion to strike five items from the record on appeal from the judgment for Apeco; Rovico, defendant-appellant, filed its answer to the motion, and we took the motion with the case.

Appendix VII—Order of Court of Appeals on Motion to Strike (August 22, 1967)

The Court finds that items 1 to 4, both inclusive, are trial court post-trial briefs and an affidavit of Apeco's trial-counsel filed in connection with the briefs. As to these items, Rovico admits they are not properly part of the record on appeal from the judgment of June 28, 1966.

The Apeco motion and the Rovico answer disclose that a contempt proceeding was begun by Apeco against Rovico for violation of the district court preliminary injunction, later set aside by this Court; and that in the course of that contempt proceedings, Rovico took the deposition, item 5, on October 29, 1965. The deposition was not offered in evidence in the proceedings.

This Court Finds: that the deposition, item 5, pertains to a conversation by one Ginsberg and Cunningham, a Rovico employee, in which Cunningham states that he was told if he would testify against Rovico on the question of the violation of the preliminary injunction and lose his job as a consequence, Cunningham would get * * * four to six months' salary * * * every week until you find a job".

The Court therefore, finds that item 5 relates solely to the question of violation of the preliminary injunction subsequently set aside by this Court before the judgment appealed from was entered; and that the item is not pertinent to the issue of patent misuse decided by this Court and discussed in the dissenting opinion, nor to any other issue decided in this Court's opinion.

Apeco's motion is allowed and the five items are hereby stricken from the record.

APPENDIX VIII

Order of Court of Appeals *En Banc* Denying Petition for Rehearing *En Banc* (October 11, 1967)

UNITED STATES COURT OF APPEALS

FOR THE SEVENTH CIRCUIT

Chicago, Illinois 60604

Wednesday, October 11, 1967

Before

HON. JOHN S. HASTINGS, Chief Judge
HON. ELMER J. SCHNACKENBERG, Circuit Judge
HON. WIN G. KNOCH, Circuit Judge
HON. LATHAM CASTLE, Circuit Judge
HON. ROGER J. KILEY, Circuit Judge
HON. LUTHER M. SWYGERT, Circuit Judge
HON. THOMAS E. FAIRCHILD, Circuit Judge
HON. WALTER J. CUMMINGS, Circuit Judge

No. 15905

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,
Plaintiff-Appellee,

vs.

ROVICO, INC.,
Defendant-Appellant.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS, EASTERN DIVISION.

IT IS ORDERED by the Court *en banc* that the petition for rehearing *en banc* be, and the same is herby Denied.

(Judge Schnackenberg voted to grant the petition for rehearing en banc, said hearing to be limited to the defense of misuse and plaintiff's reply thereto).

APPENDIX IX

Constitutional Provisions, Statutes and Rules Involved

Constitution of the United States, Article I, Section 8 (1787):

Section 8. The Congress shall have Power * * *

* * * *

To regulate Commerce with foreign Nations, and among the Several States, and with the Indian Tribes;

* * * *

To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;

* * * *

Sherman Act, Sections 1 and 2; 26 Stat. 209; 15 U.S.C. 1, 2; Public Law 190, 51st Congress, July 2, 1890, c. 647, § 1, 2, as amended by Miller-Tydings Act, 50 Stat. 693; 15 U.S.C. 1; Public Law 314, 75th Congress, August 17, 1937, c. 690, Title VIII and Act of July 7, 1955, c. 281, 69 Stat. 282:

Section 1. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal: *Provided*, That nothing herein contained shall render illegal, contracts or agreements prescribing minimum prices for the resale of a commodity which bears, or the label or container of which bears, the trade mark, brand, or name of the producer or distributor of such commodity and which is in free and open competition with commodities of the same

general class produced or distributed by others, when contracts or agreements of that description are lawful as applied to intrastate transactions, under any statute, law, or public policy now or hereafter in effect in any State, Territory, or the District of Columbia in which such resale is to be made, or to which the commodity is to be transported for such resale, and the making of such contracts or agreements shall not be an unfair method of competition under section 5, as amended and supplemented, of the act entitled "An Act to create a Federal Trade Commission, to define its powers and duties, and for other purposes", approved September 26, 1914: *Provided further,* That the preceding proviso shall not make lawful any contract or agreement, providing for the establishment or maintenance of minimum resale prices on any commodity herein involved, between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms, or corporations in competition with each other. Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

Section 2. Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not

exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

Clayton Act, Section 4; 38 Stat. 730, 731, 15 U.S.C. 15; Public Law 212, 63rd Congress, October 15, 1914, c. 323, §4:

Section 4. That any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of the suit, including a reasonable attorney's fee.

Act of October 23, 1962; Public Law 87-849, §1(a); 76 Stat. 1119; **Title 18, United States Code, Section 201:**

Section 201. Bribery of public officials and witnesses.

* * *

(h) Whoever, directly or indirectly, gives, offers, or promises anything of value to any person, for or because of the testimony under oath or affirmation given or to be given by such person as a witness upon a trial, hearing, or other proceeding, before any court, any committee of either House or both Houses of Congress, or any agency, commission, or officer authorized by the laws of the United States to hear evidence or take testimony, or for or because of his absence therefrom; or

(i) Whoever, directly or indirectly, asks, demands, exacts, solicits, seeks, accepts, receives, or agrees to receive anything of value for himself for or because of the testimony under oath or affirmation given or to be given by

him as a witness upon any such trial, hearing, or other proceeding, or for or because of his absence therefrom—

Shall be fined not more than $10,000 or imprisoned for not more than two years, or both.

• • •

Act of June 25, 1948; c. 646; 62 Stat. 928; **Title 28, United States Code, Section 1254:**

Section 1254. Courts of appeals; certiorari; appeal; certified questions.

Cases in the courts of appeals may be reviewed by the Supreme Court by the following methods:

(1) By writ of certiorari granted upon the petition of any party to any civil or criminal case, before or after rendition of judgment or decree;

• • •

Patent Act of July 19, 1952; Public Law 593, 82nd Congress, 2d session; c. 950; 66 Stat. 792; **Title 35, United States Code, Sections 102, 103, 132, 284 and 285:**

Section 102. Conditions for patentability; novelty and loss of right to patent.

A person shall be entitled to a patent unless—

• • •

(f) he did not himself invent the subject matter sought to be patented, or

• • •

Section 103. Conditions for patentability; non-obvious subject matter.

Appendix IX

A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made.

Section 284. Damages.

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

Section 285. Attorney fees.

The court in exceptional cases may award reasonable attorney fees to the prevailing party.

Federal Rules of Civil Procedure, Rule 26(d):

Rule 26. Depositions Pending Action.

• • •

Appendix IX

(d) Use of Depositions. At the trial or upon the hearing of a motion or an interlocutory proceeding, any part or all of a deposition, so far as admissible under the rules of evidence, may be used against any party who was present or represented at the taking of the deposition or who had due notice thereof, in accordance with any one of the following provisions:

• • •

(3) The deposition of a witness, whether or not a party, may be used by any party for any purpose if the court finds: 1, that the witness is dead; or 2, that the witness is at a greater distance than 100 miles from the place of trial or hearing, or is out of the United States, unless it appears that the absence of the witness was procured by the party offering the deposition; or 3, that the witness is unable to attend or testify because of age, sickness, infirmity, or imprisonment; or 4, that the party offering the deposition has been unable to procure the attendance of the witness by subpoena; or 5, upon application and notice, that such exceptional circumstances exist as to make it desirable, in the interest of justice and with due regard to the importance of presenting the testimony of witnesses orally in open court, to allow the deposition to be used.

• • •

Substitution of parties does not affect the right to use depositions previously taken; and, when an action in any court of the United States or of any state has been dismissed and another action involving the same subject matter is afterward brought between the same parties or their representatives or successors in interest, all depositions lawfully taken and duly filed in the former action may be used in the latter as if originally taken therefor.

• • •

Appendix IX

Federal Rules of Civil Procedure, Rule 43(a):

Rule 43. Evidence.

(a) Form and Admissibility. In all trials the testimony of witnesses shall be taken orally in open court, unless otherwise provided by these rules. All evidence shall be admitted which is admissible under the statutes of the United States, or under the rules of evidence heretofore applied in the courts of the United States on the hearing of suits in equity, or under the rules of evidence applied in the courts of general jurisdiction of the state in which the United States court is held. In any case, the statute or rule which favors the reception of the evidence governs and the evidence shall be presented according to the most convenient method prescribed in any of the statutes or rules to which reference is herein made. The competency of a witness to testify shall be determined in like manner.

• • •

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1967

No. 906

ROVICO, INC., PETITIONER,

against

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,
RESPONDENT.

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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QUESTIONS PRESENTED

In its statement of questions 1 through 5, petitioner has assumed facts directly contrary to the findings of the courts below.

Restating these questions to conform to the findings:

1 (former 1-3). Is a uniform royalty of 6% of the retail selling price of a machine so "exorbitant and oppressive" as to constitute misuse of the patent licensed when an entire business was founded on the invention of the patent and the total royalties constitute less than 2% of the sales resulting from that business?

2 (former 4). Is a patent misused by charging a royalty computed on the selling price of a com-

plete machine of which a major and functionally indispensable segment is covered by the patent?

3 (former 5). Was it error to exclude a deposition taken in another action between different parties, where the deposition was inadmissible even in the action in which it was taken (due to the arbitrary refusal of the witness to permit completion of his cross-examination) and where a deposition exhibit (a letter written by the witness himself) contradicts petitioner's statement as to what the deposition would show?

Petitioner's statement of the remaining Question 6 gives a misleading impression of the relevant facts, as discussed hereinafter.

STATEMENT OF FACTS

In its statement of facts, petitioner asserts at page 10 that the exposure and developer mechanisms are "separate machines" each of which "performs its own function independently of the other."

That statement is highly misleading. The record shows not only that the two mechanisms share the same cabinet, the same motor and drive mechanism, and the same electrical supply and control components, but also that neither mechanism is of any significant utility without the other. The following testimony of the witness MacLeod was uncontradicted:

"I want to make it clear that you cannot practice transfer diffusion photocopying without both exposure and developing. One unit is no good with-

out the other." (Appendix to Appellee's Brief, 100b)

At pages 10 and 12, petitioner asserts that "the patent dominates the industry" and that "respondent and its licensees comprise the bulk of the industry." On the contrary, following the trial on the merits, the District Court found that the patented DTR machines

> "... account for only 10 per cent of the photocopying machine market, of which plaintiff's (respondent's) sales amount to 15 per cent or 1½ per cent of the total." (A 25-26)

Thus the Court found that

> "... the bulk of the office photocopying industry is not involved." (A 30)

The Court of Appeals, upon review of the trial record, affirmed these findings (A 43).

There were two hearings before the Seventh Circuit Court of Appeals involving the parties herein. The first was to review the District Court's granting of a preliminary injunction and resulted in a decision dated March 3, 1966. The second was to review the lower Court's disposition of the case on the merits and resulted in a decision dated August 22, 1967. Petitioner bases its assertion that the patent in suit dominates the industry and that respondent and its licensees comprise the bulk of the industry on a finding by the Court of Appeals in its earlier opinion of March 3, 1966 (A 10). But petitioner fails to mention anywhere in its lengthy petition that this decision of March 3, 1966 (on the interlocutory appeal from the prelimi-

nary injunction) was not based upon any record except the allegations of petitioner's counterclaim, which the Court found were not properly challenged, and an affidavit of petitioner's president which was abandoned when he did not testify at the trial, though present.

Before the Court of Appeals, in the hearing which preceded its second decision of August 22, 1967, petitioner took the position that the Court of Appeals, in its March 3, 1966 opinion, had already decided these misuse issues in its favor. But the Court of Appeals, in its August 22, 1967 decision, expressly rejected that contention, pointing out that its earlier decision was based merely upon the "undisputed" allegations of the counterclaim, and was not a decision on the merits. Petitioner's reliance upon the finality of the earlier decision was regarded by the Court of Appeals as a "principal weakness" in petitioner's position on the second appeal (A 43).

Having thus been corrected by the Court of Appeals as to the meaning and effect of its March 3, 1966 decision, petitioner has nevertheless repeated the same discredited assertions to this Court, just as though the Court of Appeals had never rendered its later decision on the merits.

REASONS FOR NOT GRANTING THE WRIT

I. Alleged "exorbitant and oppressive" royalties.

Petitioner argues, at pages 12-16, that this Court should settle the question "whether the leverage of a patent may be used to exact exorbitant and oppressive patent royalties."

There are two fallacies in that argument:

1. In the first place, this Court has already resolved this issue. In *United States* v. *General Electric Co.*, 272 U. S. 476, 489 (1926), the Court stated:

> "... the patentee may grant a license to make, use and vend articles under the specification of his patent *for any royalty* or upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure." (Emphasis added)

In *United States* v. *Huck Mfg.*, 382 U. S. 197 (1965), this Court affirmed without opinion a decision of the Court of Appeals for the Ninth Circuit quoting and following the foregoing language from *General Electric.*

And in *Brulotte* v. *Thys*, 379 U. S. 29, 33 (1965), this Court emphatically and unequivocally restated the principle:

> "A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly."

It is difficult to imagine how this statement could leave any lower court with the impression that it has the right, much less the duty, to reopen every patent license negotiation and form its own judgment as to whether the licensee agreed to pay more than the license rights were really worth.

The lower courts have obviously gotten this message, for petitioner is unable to cite a single decision in which the amount of the royalty charged, however high, has

been ruled to constitute a patent misuse. As stated in *Stearns* v. *Tinker & Rasor,* 252 F.2d 589, 605 (9 Cir. 1957):

> "To say that the mere amount of money due and payable for the grant of a license is subject to judicial review would render each and every agreement subject to court approval. No cases have gone that far."

2. In the second place, if the law really needed clarification as to whether "exorbitant and oppressive" patent royalties are illegal, the present case is not the proper vehicle therefor, since the courts below made concurrent findings that, under the circumstances here, there was "no unreasonableness" in the royalty charged (A 27; A 42-43).

Among the factors cited by the District Court in ruling the royalties reasonable were:

> (1) the patent owner itself paid, for its own operations under the patent, an amount equal to twice the royalty paid by its licensees for the same rights of manufacture and sale (A 27);
>
> (2) the licensee pays no royalty on its sales of paper and chemicals which are generated by use of the licensed machines which it has sold, and since these supply sales average as much as three times the machine sales (Appendix to Appellee's Brief, 108b), the royalty actually amounts to less than 2% of the total sales which the patent makes possible (A 27); and
>
> (3) the prices of the licensed machines actually declined after the licenses were granted (A 27).

The latter fact makes petitioner's argument, at pages 18-20, that excessive royalties have the effect of "price fixing" seem wholly incongruous.

Petitioner's reliance at page 18 on this Court's dictum in *Standard Oil Co. (Indiana)* v. *United States,* 283 U. S. 163, 174 (1931) is similarly misplaced, since that statement specifically referred to a situation in which "combining patent owners effectively dominate an industry."

Here there are no combining patent owners and the lower courts expressly found that "the bulk of the office photocopying industry is not involved." (A 30).

II. Alleged derivation of royalties from "unpatented machines."

Petitioner argues at pages 20-24 that respondent is charging a royalty on "unpatented machines" and that this violates the principle enunciated by this Court in *Mercoid Corp.* v. *Mid-Continent Investment Co.,* 320 U. S. 661 (1944).

There are two fatal defects in that argument:

1. To begin with, respondent has never charged a royalty on unpatented machines. The royalty is payable only on machines which incorporate the patented developer mechanism. Where the exposure and developer mechanisms are sold as separate units, the royalty is payable only on the latter (Appendix to Appellee's Brief, 100b-101b). Where the licensee elects, for reasons of economy of manufacture, compactness and operating convenience, to combine both mechanisms in a single machine, the royalty is computed, for purposes

of simplicity and certainty, on the selling price of the entire machine. The Court can readily appreciate the disputes which would result from attempting to base the royalty only on the "patented" portion of the machine, since this would involve apportioning to the patented and unpatented portions indeterminate fractions of the value of the common elements, such as the cabinet and motor, which serve both portions.

But, as the District Court observed:

> "Whether the royalty is stated as 6 per cent of the retail price of the entire machine, including the non-patented device, or 12 per cent of the retail price of the Eisbein apparatus alone is not essential, for the result is precisely the same . . . a specified charge for the right to manufacture under the patent at issue." (A 28).

2. Moreover, *Mercoid* does not rule that a royalty cannot be charged on a machine containing unpatented elements. Instead that case involved the entirely different situation where the owner of a patent on a heating control system refused to license the patent except to those who agreed to purchase from it the unpatented switches used in the patented system. Since this practice tended to give the patentee a monopoly in the sale of the unpatented switches, this Court ruled it an illegal extension of the patent monopoly.

Here respondent has not given the purchaser of any unpatented element a free license under the patent, nor has it done anything else which tends to extend its patent monopoly.

Its licensing practice is far more innocuous than that which this Court approved in *Automatic Radio*

Mfg. v. *Hazeltine Research,* 339 U. S. 827, 834 (1950), where the licensee was required to pay royalties computed as a percentage of its entire sales of television receivers, whether patented or not. This undoubtedly resulted in payment of royalty on some wholly unpatented units. And it is quite significant that this Court expressly distinguished such royalty provisions from the illegal extension of monopoly proscribed by *Mercoid.*

A fortiori, the *Mercoid* principle does not apply to the present situation, where a royalty is payable only on machines of which a major and functionally indispensable segment is patented.

III. The exclusion of the Boeger deposition.

Petitioner argues, at pages 24-28, that the District Court committed reversible error in excluding from evidence the deposition of a Dr. Boeger, taken in a previous action for infringement of the Eisbein patent brought against respondent by Copease Manufacturing Co. Inc., respondent's predecessor in title to the patent.

The thrust of petitioner's argument is that although respondent was involved in the previous action as a *defendant* accused of patent infringement, and thus was on the side of the case opposite to its present posture, its predecessor in title was the plaintiff there and had the same motive in cross-examination as respondent now has.

However, petitioner curiously omits to mention that the Boeger deposition was not even admissible in the action in which it was taken (and was not even offered) because Boeger arbitrarily refused to permit comple-

tion of his cross-examination (Boeger dep., pp. 51, 52). *A fortiori* it is inadmissible in the present action.

Moreover, petitioner's statement at pages 24 and 25 that the Boeger deposition would show that Boeger had designed a machine "identical" with the patented Eisbein machine "either prior to, or contemporary with, the Eisbein machine," is contradicted by Exhibit 42 to the deposition (Appendix to Appellee's Brief, 147b) which shows conclusively that Boeger did not design his machine until after he had thoroughly inspected the Eisbein machine and seen it operated, had extravagantly praised it, and had even ordered 25 of the Eisbein machines for his own company and 8 more for another company on his own initiative. It is no mere coincidence that the machine which Boeger subsequently designed was "identical" to the Eisbein machine.

In characterizing the Boeger deposition as "crucial" evidence, petitioner has been intemperate, to say the least.

IV. Respondent's alleged "unclean hands."

Petitioner has grossly misstated the circumstances and terms of the unaccepted "offer" which was made to petitioner's employee in connection with his proposed testimony. The facts are correctly stated in the affidavit which was filed in the District Court and which is reproduced as Appendix A to this Brief.

As this affidavit clearly shows, there was no offer of valuable consideration "for or because of the testimony" of the employee, as prohibited by 18 U.S.C. § 201.

CONCLUSION

The petition should be denied.

Respectfully submitted,

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APPENDIX A

IN THE

United States District Court

FOR THE SOUTHERN DISTRICT OF ILLINOIS

AMERICAN PHOTOCOPY EQUIPMENT CO., *Plaintiff,* *v.* ROVICO, INC., *Defendant.*	Civil Action No. 62 C 2080

AFFIDAVIT OF WILLIAM C. CONNER

STATE OF NEW YORK }
COUNTY OF NEW YORK } ss.:

William C. Conner, being first duly sworn, deposes and says:

1. I am a member of the bar of the State of New York and have participated as one of the counsel for plaintiff in the above-captioned action since its inception.

2. I was today informed by my associate counsel in Chicago, John J. Crown, Esq., that defendant had either filed or indicated its intention to file a motion based upon the charge that plaintiff, through one of defendants' former employees, Jacob Ginsberg, had attempted to bribe one of defendants' present employees, Leroy Cunningham, to give false testimony incriminating defendant for violation of an injunction *pendente*

lite. I have personal knowledge of the facts upon which this charge is apparently based and make this affidavit to set forth such facts.

3. In the course of a search for evidence that defendant had violated the injunction, on or about September 25, 1965, I spoke by telephone with Mr. Ginsberg, who related to me some of the facts about which he subsequently testified at the trial. I also arranged to meet Mr. Ginsberg during the evening of September 25 at a restaurant adjacent the northern end of the New Jersey turnpike, where he told me the balance of the facts to which he testified at the trial. Ultimately he agreed to come to Chicago to testify concerning these facts.

4. Mr. Ginsberg assured me, with obvious sincerity, that his story was absolutely correct, although he cautioned me to expect that defendants' President, Robert Vinci, would deny much of what he had told me. I replied that, under the circumstances, it would be desirable, if at all possible, to obtain the testimony of at least one other witness who could corroborate his story. He told me that most of the persons having knowledge of the facts were still employees of defendant and that it would be extremely difficult if not impossible to persuade any of them even to talk to me, much less to testify, because Vinci was a vindictive man who would undoubtedly discharge any employee who furnished evidence of his violation of the injunction and all of these people were dependent upon their jobs for support of their families. He added, however, that there was one knowledgeable employee whom he would ex-

pect to tell the truth notwithstanding, if he did testify. However, he said that he felt that he should not give me this man's name, lest I subpoena him and force him to testify against his will, and possibly bring about the loss of his job, with resulting great hardship to his family. At my suggestion, he did telephone this man, who I now know was Leroy Cunningham, from a telephone booth in the restaurant. I did not hear their conversation, but Ginsberg reported to me upon its conclusion that Cunningham had stated that he did not want to become involved in any way, even to the extent of talking to me, lest he lose his job. I promised Ginsberg that I would not attempt to subpoena Cunningham or even to contact him informally.

5. Within the next day or two, I spoke by telephone with Donald S. MacLeod, Vice President and General Counsel of plaintiff, and reported to him the above information. At my suggestion, he agreed that I might ask Ginsberg to contact Cunningham again and tell him that, if he would consent to testify at the trial, and if, as a result of such testimony, he was discharged by defendant, plaintiff would assure him that his family would not suffer by agreeing to reimburse him for his lost salary until he could find another job, however not to exceed a maximum of four to six months. I telephoned Mr. Ginsberg and he agreed to call Cunningham to relay this proposal to him. Ginsberg telephoned me later to report that, even with such assurances, Cunningham still did not want to get involved in the lawsuit. Pursuant to my promise to Mr. Ginsberg I made no further attempt to contact Cunningham.

6. At no time did I request that Ginsberg or any one else attempt to induce Cunningham to do anything other than tell the truth. Ginsberg's conversations with me indicated that he had done nothing more than this.

7. I know of no attempt by or on behalf of plaintiff to bribe or otherwise suborn any witness or prospective witness in this case.

Further deponent sayeth not

WILLIAM C. CONNER
William C. Conner

Subscribed and sworn to before me
this 13th day of January, 1966.

MILDRED F. DIGNON
Notary Public

MILDRED F. DIGNON
NOTARY PUBLIC, STATE OF NEW YORK
No. 24-6031900 Qualified in Kings County
Commission Expires March 30, 1966

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Respondent.

PETITIONER'S REPLY TO RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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PETITIONER'S REPLY TO RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

I. Reply to Respondent's Reasons for Not Granting Writ (Questions 1, 2, 3 — Exorbitant and Oppressive Royalties).

A. Legal Aspects of Exorbitant and Oppressive Patent Royalties.

Regarding the question "whether the leverage of a patent may be used to exact exorbitant and oppressive patent royalties," Respondent's Brief (p. 5) asserts that:

> "In the first place, this Court has already resolved this issue. In *United States* v. *General Electric Co.*, 272 U. S. 476, 489 (1926), the Court stated:

> "'. . . the patentee may grant a license to make, use and vend articles under the specification of his patent *for any royalty* or upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure.'" (Emphasis supplied by respondent.)

This begs petitioner's Question 1 which seeks to ascertain whether it is the meaning and intent of this decision to sanction and approve a royalty which is *not* reasonably within the patent reward.

The very case which respondent cites, *Stearns* v. *Tinker & Rasor,* 252 F. 2d 589 (9 Cir. 1957) appears to construe *General Electric* as holding that a patent owner is "legally allowed" to charge a royalty which would enable him to realize no more than the reward to which he is entitled (252 F. 2d at p. 604):

> "Stearns owns a patent on a particular device and is legally allowed to charge for the grant of a license an amount that will allow it to realize the reward to which, as the owner of the patent, it is entitled."

Respondent's Brief (pp. 5-6) states that "petitioner is unable to cite a single decision in which the amount of the royalty charged, however, high, has been ruled to constitute a patent misuse". Respondent forgets the first decision of the Court of Appeals in this case (359 F. 2d 746, March 3, 1966) wherein the Court held (A7) that:

> "* * * the royalty policy of plaintiff is in violation of the antitrust laws of the United States, being exorbitant and oppressive."

Respondent (Brief, pp. 3-4) seeks to minimize the significance of this decision by attributing it to a pleading deficiency:

> "* * * this decision of March 3, 1966 * * * was not based upon any record except the allegations of petitioner's counterclaim which the Court found were not properly challenged, and an affidavit of petitioner's president * * *."

But even the District Court would not accept this argument, as appears from the following colloquy at the Hearing of April 29, 1966 (Tr. 10):

> The Court: * * * I am not impresssed with your argument, Mr. Crown, that it is based only on the failure to deny it in your responsive pleadings and that it stands admitted because I must not be blind to the fact that we tried this case and the evidence in the case indicated that the testimony wouldn't have been any different.
>
> Mr. Crown [Respondent's Attorney]: I am not asserting that it would be any different, your Honor.
>
> * * *

Question 1 and the other antitrust Questions presented herein for review have generated great interest among those who are concerned with the interrelationship between the patent and antitrust laws, and the present proceeding is widely regarded as a test case which will have broad application and far-reaching consequences. Annexed hereto as Appendix A is a report concerning the instant Petition for Certiorari in the December 26, 1967 issue of the Antitrust and Trade Regulation Report of The Bureau of National Affairs.

B. Factual Basis of Question 1.

Respondent's Brief (p. 6) states that:

> "* * * if the law really needed clarification as to whether 'exorbitant and oppressive' patent royalties are illegal, the present case is not the proper vehicle therefor, since the courts below made concurrent findings that, under the circumstances here, there was 'no unreasonableness' in the royalty charged (A27; A42-43)."

The following is a brief discussion of the three factors listed by respondent (Brief, p. 6) as having been "cited by the District Court in ruling the royalties reasonable":

> "(1) the patent owner itself paid, for its own operations under the patent, an amount equal to twice the royalty paid by its licensees for the same rights of manufacture and sale (A27)" (Respondent's Brief, p. 6).

Respondent has paid nothing "for its own operations under the patent". What did it pay for, was found by the District Court as follows (A12):

> "* * * after the Court's ruling in the Seventh Circuit litigation [*Copease Mfg. Co.* v. *American Photocopy Equipment Co.*, 298 F. 2d 772], APECO, plaintiff herein, and defendant there, purchased the entire capital stock of Copease Mfg. Co., for the sum of $5,450,000 (Stp. of Oct. 25, 1965), including the Eisbein patent and the licenses previously granted thereunder."

But even this payment has in part been recovered. During the period June 18, 1962 (when respondent acquired the patent in suit) through September, 1965 (the eve of

trial), respondent collected $924,065.86 in damages and royalties under the patent (1b, 5b). It subsequently received additional sums in payment of damages and royalties; it was itself saved from paying the treble damages which were awarded in the *Copease* case; and it was and is able to operate under the patent royalty free.

> "(2) the licensee pays no royalty on its sales of paper and chemicals which are generated by use of the licensed machines which it has sold, and since these supply sales average as much as three times the machine sales * * * the royalty actually amounts to less than 2% of the total sales which the patent makes possible (A27)" (Respondent's Brief, p. 6).

Regardless of how small the royalty may seem when computed on sales of unpatented materials used in the patented machine, it remains 24 percent of the licensee's (manufacturer's) selling price of the only article on which respondent is entitled to royalties—the patented machine itself. This is conclusively shown in the following colloquy between the District Court and respondent's attorney Crown at the Hearing of April 29, 1966 (Tr. 13-14):

> The Court: They [the Court of Appeals] say, "Furthermore, defendant contends * * * that the value of the licensed part (one-half) of the machine is only half the value of the whole machine, the royalty imposed is approximately 24% of the manufacturer's selling price of the licensed half of the machine. This factual statement has not been denied by plaintiff."
>
> Mr. Crown: And we still don't deny it.
>
> The Court: That is my point, you still do not deny it. That is a fact as developed in the trial. * * *

The finding that "sales of paper and chemicals * * * are generated by use of the licensed machines * * * and * * * average as much as three times the machine sales" (Respondent's Brief, p. 6) points up a trademark tie-in between the patented machine and the unpatented materials used in the machine. This was expressly alleged and admitted in the pleadings (antitrust counterclaim, paragraph 34 and reply thereto) and confirmed by the testimony of respondent's general counsel MacLeod (Trial Tr. 1243):

> Q. Mr. MacLeod, can you state whether or not it is the custom in the industry for a customer to purchase the paper from the same company he purchases the machine from, talking about the DT or diffusion-transfer industry? A. Yes, it is customary.

It is evident that ownership of the patent and control of the industry by means of an exorbitant and oppressive royalty policy are tantamount to control of the sale of the unpatented supplies for the patented machine.

> "(3) the prices of the licensed machines actually declined after the licenses were granted (A27)" (Respondent's Brief, p. 6).

Respondent well knows that competition, not reasonable royalties, brought about the price decline. So testified respondent's general counsel MacLeod on examination by respondent's own attorney Conner (Trial Tr. 1245-1246):

> A. * * * our prices have declined, and to my knowledge, in general, prices of competitors' equipment have declined due to the intense competition existing in the industry in the past few years.

C. The Retail Selling Price Is an Uncertain and Indeterminate Royalty Base.

Respondent's Brief (pp. 7-8) states that:

> "the royalty is computed, for purposes of simplicity and *certainty,* on the [retail] selling price of the entire machine." (Emphasis supplied.)

But the purpose of certainty is not served by applying the royalty to the *actual retail selling price,* since there is no way of determining what that price will be. Respondent accordingly computes its royalty on a *retail list price* fixed by the manufacturer—licensee (140a):

> Q. [By petitioner's attorney Stoll] * * * in your license agreement, don't you provide for 6 per cent of the net retail selling price? A. [By respondent's general counsel MacLeod] Yes, we do.
>
> Q. And what do you use as your guide, the list price? A. Yes. As a matter of convenience, for a manufacturer who is selling to a dealer or a distributor, there is no way of determining when that machine will be resold, and at what price. * * *

Respondent knows of no procedure whereby retail sales at prices below the list price are reported back to the licensees for a royalty adjustment (Trial Tr. 1177):

> Q. [By petitioner's attorney Stoll] * * * do you know of any procedures that your licensees have set up whereby retailers report back to them and tell them at what price their machines are sold? A. [By respondent's general counsel MacLeod] No, I do not.

Respondent knows of no cases in which retailers have in fact reported their selling prices back to the licensees for a royalty adjustment (Trial Tr. 1177):

> Q. [By petitioner's attorney Stoll] And you do not know whether any retailers have reported back the prices at which the machines have been resold?
>
> * * *
>
> A. [By respondent's general counsel MacLeod] * * * Except for that [settlement procedures for determining damages in infringement litigation] I don't know of any specific cases.

Nor have any licensees reported such retail prices back to respondent for a royalty adjustment (Trial Tr. 1178):

> Q. [By petitioner's attorney Stoll] * * *have any of your licensees actually reported back to you that there is, in fact, or was, in fact, a difference between the suggested or list price and the actual price at which the retailer sold machines and on the strength of that requested a [royalty] refund? A. [By respondent's general counsel MacLeod] Except for past damages, settlements * * * not to my knowledge, no.

D. Actual Effect of the Royalty on the Industry.

The decision of the Court of Appeals in the preliminary injunction proceeding (359 F. 2d 746, March 3, 1966, A10) provided that:

> "* * * this cause may proceed to trial on the merits, unaffected by the findings of fact and conclusions of law heretofore made and entered into by that [District] Court in this case." *

---

* This directive for a further trial was made with full knowledge of the fact that the main trial had already been held:

> Mr. Crown: * * * the Court knew before it made this decision the case had been tried both from oral argument and in writing * * *. (Hearing of March 7, 1966, Tr. 18).

Pursuant to this directive, petitioner made an Offer of Proof of the disastrous effect of the exorbitant and oppressive royalty upon the industry. This Offer of Proof, annexed hereto as Appendix B, was based on affidavits supplied by respondent's licensees in consequence of said decision of the Court of Appeals.

The District Court initially responded to the directive to proceed to trial in the following manner (Hearing of April 29, 1966) (Tr. 6):

> The Court: * * * They [the Court of Appeals] go on to say, in the last sentence of their opinion, "Of course the cause may proceed to trial on the merits, unaffected by the findings of fact and conclusions of law heretofore made and entered into by that Court in this case."
>
> However, it would seem to me to be a useless waste of time to put this case to trial again because, on the admitted fact, the royalties that the defendant talked about, 6 and 12 and 24, seemingly are not in dispute.

• • •

(Tr. 8):

> The Court: * * * the actual testimony in the case, the arithmetic isn't disputed.
>
> Mr. Crown [Counsel for respondent]: The arithmetic is not but the question of exorbitancy certainly is.
>
> The Court: Well, the question of exorbitancy would not be for the witness to testify. That would be for the Court to determine and, regardless as to what I would say here, if I held this was not exorbitant—they have said it is, that it is an oppressive royalty * * *.

• • •

(Tr. 9):

> There isn't anything I can do and I am certainly not going to defy them. * * *

Nevertheless, on June 20, 1966, without any further trial proceedings,* the District Court rendered its decision and held, *inter alia,* (A30) that:

> "This Court is satisfied from the evidence introduced at trial that the royalty at issue is neither exorbitant nor oppressive * * *."

The District Court's refusal to proceed to trial pursuant to the directive to do so, was a rejection of petitioner's Offer of Proof of the impact of respondent's licensing policy upon the industry.

On appeal, the Court of Appeals struck the Offer of Proof from the appeal record (A45-46),** and thereby affirmed the District Court's refusal to consider it or to proceed to trial with respect to it. On the other hand, the dissenting opinion of Judge Schnackenberg did take the Offer of Proof into account. We refer to his finding (A44) that "the actual royalty, applied to the manufacturer's selling price, ranges between 24% and 136%".

It is respectfully submitted that the refusal of the lower Courts to consider petitioner's Offer of Proof was in

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* The statement in the District Court's decision (A30) that "The Court of Appeals instructed this Court to proceed to trial of this case on the merits. We have done so * * *", refers to the trial which was conducted *prior* to the Court of Appeals decision.

** It is stated in the order striking the Offer of Proof (and other items) from the appeal record (A46) that petitioner "admits they are not properly part of the record on appeal". Petitioner never made any such admission. The Court inadvertently attributed to petitioner a statement made by respondent.

utter disregard of the public interest and contrary to the policy of this Court in matters involving misuse of the patent privilege (*Mercoid Corp.* v. *Mid-Continent Inv. Co.*, 320 U. S. 661, 669; 64 S. Ct. 268, 273, 1944, as quoted in the earlier Court of Appeals decision in the present case, A8):

> "It is sufficient to say that in whatever posture the issue may be tendered courts of equity will withhold relief where the patentee and those claiming under him are using the patent privilege contrary to the public interest."

II. Reply to Respondent's Reasons for Not Granting Writ (Question 4 — Royalties From Unpatented Machines).

A. The Royalties are Derived From Unpatented Machines.

Respondent's Brief (pp. 7-8) alleges that:

> "* * * respondent has never charged a royalty on unpatented machines. The royalty is payable only on machines which incorporate the patented developer mechanism. Where the exposure and developer mechanisms are sold as separate units, the royalty is payable only on the latter * * *. Where the licensee elects * * * to combine both mechanisms in a single machine, the royalty is computed * * * on the selling price of the entire machine."

This is a double-talking admission that respondent derives royalties from the unpatented exposing machine (or from the unpatented combination of both machines)

and this is confirmed by the following testimony and colloquy (141a; Trial Tr. 1196):

> Q. [By petitioner's attorney Stoll] * * * the royalty is paid on the entire machine, is it not? A. [By respondent's general counsel MacLeod] That's correct.
>
> Q. And that includes the part that is not patented, namely, the exposure device? A. That's correct.
>
> ---
>
> The Court: * * * is there any question about the royalties being paid on any machine that is under one housing or casing if it contains a patented device?
>
> Mr. Conner (Respondent's attorney): None whatsoever, your Honor. We will concede that.
>
> The Court: So there isn't any question about it. It may contain non-patented articles, but if it contains the patented device under one housing or casing, that royalty is paid regardless of what the price of the machine sells for?
>
> Mr. Connor: That's correct, your Honor.

B. The Patented Developing Machine and Unpatented Exposing Machine are Separate and Distinct Machines.

1. The patent does not cover the diffusion transfer photocopy process or a diffusion transfer photocopy machine.

Respondent's Brief (pp. 2-3) quotes respondent's witness for the proposition that:

> "* * * you cannot practice transfer diffusion photocopying without both exposure and developing. One unit is no good without the other."

But this is wholly irrelevant since the patent in suit covers neither the diffusion transfer photocopy *process* (exposing plus developing) nor a diffusion transfer photocopy *machine* (exposer plus developer). All that the patent discloses and claims, as found by the District Court, (A12) is:

> "a machine for performing the development stage alone".

2. Each machine is of significant utility without the other.

Respondent's Brief (p. 2) asserts that "neither mechanism is of any significant utility without the other".

On the contrary (if this is at all material to the issues herein), the unpatented exposing machine is entirely conventional and is used in conventional photographic printing processes. As respondent's expert Hill testified (Trial Tr. 284), the patented developing machine may be used with "Any exposure device".

Similarly, the patented developing machine is used in conventional developing processes which have nothing to do with diffusion transfer (Eisbein patent, col. 1), e. g., developing photo-offset printing plates (Trial Tr. 113) and monobath and stabilization processing (Trial Tr. 642-646).

3. The patented developing machine and the unpatented exposing machine are separate machines.

Respondent's Brief (p. 2) takes issue with the assertion in the Petition for Certiorari (p. 10) that, although the patented developing machine and the unpatented exposing machine occupy the same cabinet and are driven by the same motor, they nevertheless are "separate machines".

But the machines *are* separate. They function in a common cabinet and with a common motor precisely as they

function in individual cabinets and with individual motors, neither machine affecting or modifying the operation of the other. Each machine functions independently of the other and regardless of the presence or absence of the other. Indeed, either machine may be rendered inoperative or even physically removed from the cabinet, and the other will nevertheless continue to function equally as well as before. The products of their respective operations are identical, whether processed in two cabinets or in one.

This is well known to respondent, and its representation to this Court (that the two machines are one) is directly contrary to its representation to the District Court in *Copease Mfg. Co.* v. *American Photocopy Equipment Co.*, 298 F. 2d 772 (7 Cir. 1961).

On June 14, 1966, petitioner brought the following *Copease* trial testimony to the attention of the District Court in the present case. (Tr. 605-606):

> By Mr. Conner [Attorney then for Copease, attorney now for respondent]: * * *.
>
> The defendants [respondent herein], in furnishing us those figures on the sales of machines, furnished us only a proportion of the total sales which they allocated to the developer portion of the machines where they sold what they called the Systematic machine, including both the developer and exposure sections.
>
> The total machine brings maybe $300.00, and they figured $150.00 for the exposure and $150.00 for the developing section and gave us the figures of sales only on the developer section.
>
> * * *

(Tr. 608):

> By Mr. Jenner [Attorney then and now for respondent] * * * What counsel wants to do is expand this record and get large figures by also including in the record the exposure box, which has nothing to do with the patent in suit * * *.

C. Inequity of Royalty on Combined Machine.

Respondent's Brief (pp. 7-8) states that:

> "Where the exposure and developer mechanisms are sold as separate units, the royalty is payable only on the latter * * *, Where the licensee elects, for reasons of economy of manufacture, compactness and operating convenience, to combine both mechanisms in a single machine, the royalty is computed, for purposes of simplicity and certainty, on the selling price of the entire machine."

But it would be equally simple and certain to charge the same royalty on the combined machine that is charged on the patented developing machine alone, since it is the developing machine alone, whether mounted in its own cabinet, or sharing a cabinet with another machine, which is licensed under the patent.

Under respondent's licensing policy, while the *royalty rate* (6% of the retail selling price) remains constant, the *actual royalty* increases in direct proportion to substantial accretions in value which are entirely unrelated to the patent in suit, such as the added value of the unpatented exposing machine, and various devices which are covered by other patents, including automatic three-sheet (original, negative, positive) feeding and transporting machinery, automatic developing liquid storing and feeding apparatus, and a paper storing and dispensing mechanism (Trial Tr. pp. 1191-1196, 1211).

Moreover, the royalty increases with every price markup after the machine is sold by the manufacturer-licensee. It increases when the distributor sells to the wholesaler; it again increases when the wholesaler sells to the retailer; and it increases once more when the retailer sells to the ultimate consumer.

The inequity of respondent's licensing policy was recognized by the District Court at the Hearing of April 29, 1966 (Tr. pp. 8-9):

> The Court: * * * It doesn't make sense and it does offend my sense of equity—when you take a patented article that may sell, whether it is for $50 or $100, and you put it in a cabinet and it sells for $400 or $450, that the licensor should receive a royalty on the entire instrument. But, the fact is, that you persuaded me and I was persuaded on the cases from the Supreme Court that you cited because they said that is the law.
>
> * * *
>
> I am frank to say that while I was convinced at the time I tried the case that that was the law, the fact that it was didn't mean that I should like it, and I didn't like it then and I don't like it now. I just think it is an unrealistic approach when licensors should receive royalties on unpatented articles, but, that seems to have been the law and there is language both ways, but, apparently, some of the cases that I read in the Supreme Court indicated that there didn't seem to be much dispute as to their right to do it. * * *

The public importance of Question 4 presented for review is fully demonstrated by this statement of the District Court.

III. Relevant Market

Respondent's Brief (p. 3) raises the question of relevant market by citing the District Court finding that the patented machines "account for only 10 per cent of the photocopying machine market" and that "the bulk of the office photocopying market is not involved".

But the question of relevant market was anticipated and answered in the Petition for Certiorari (p. 11). There is no evidence in the present record of any relevant market outside of the diffusion transfer photocopy industry occupied by the respondent and its licensees.

This is not a small industry, as the hearsay testimony of respondent's witness MacLeod (quoted in the Petition, p. 11) would have the Court believe. Referring to the patented machine and the paper and chemicals used therein, respondent's attorney Crown made the following representations to the District Court following the earlier Court of Appeals decision herein (Hearing of April 29, 1966, Tr. 22):

> "* * * this developing device gave rise to a tremendous industry * * *."
>
> "* * * this patent gave rise to an entire industry, some $288,000,000 * * *."

Additionally, relevant market is irrelevant in cases of *per se* violation of the Sherman Act, e.g., price fixing and deriving patent royalties from unpatented articles. *International Salt Co.* v. *United States,* 332 U. S. 392, 396; 68 S. Ct. 12, 15 (1947). Question 3 presented for review deals with price fixing; Question 4 with patent royalties derived from unpatented articles.

If this Court should hold (in answer to Question 1) that exorbitant and oppressive patent royalties (royalties in

excess of "reasonable reward") are as much "an expansion of the patent monopoly" as patent royalties derived from unpatented components of a patented combination (*Mercoid Corp.* v. *Mid-Continent Inv. Co.*, 320 U. S. 661, 666; 64 S. Ct. 268, 273, 1944), or patent royalties derived from unpatented products used in patented machines (*International Salt Co.* v. *United States*, 332 U. S. 392, 396; 68 S. Ct. 12, 15, 1947), or patent royalties projected beyond the life of the patent (*Brulotte* v. *Thys*, 379 U. S. 29, 32; 85 S. Ct. 176, 179, 1964), then exorbitant and oppressive patent royalties will join the ranks of *per se* violations of the antitrust laws.

IV. The Patent Dominates the Industry.

Respondent's Brief (pp. 3-4) states that:

> "Petitioner bases its assertion that the patent in suit dominates the industry and that respondent and its licensees comprise the bulk of the industry on a finding by the Court of Appeals in its earlier opinion of March 3, 1966 (A10)."

On the contrary, as the Petition for Certiorari clearly shows (p. 11), this assertion is based directly on the testimony of respondent's own witness MacLeod. Furthermore, the fact that the patent dominates the industry and that the respondent and its licensees comprise the bulk of the industry, is conceded in respondent's own briefs, e. g., "Apeco's Supplemental Memorandum Submitted [to the District Court] in View of the Seventh Circuit's March 3, 1966 Opinion" (p. 4):

> "Without the Eisbein patented structure in the DTR machines, the entire DTR industry would be non-existent. * * * The leading companies in the

DTR field are all licensed under the Eisbein patent * * *."

Domination of the industry is further evident from the fact that virtually all of the licenses under the patent in suit were granted in consequence of infringement litigation. This appears from respondent's stipulation Exhibit B (5b) and the following statement in respondent's Trial Exhibit 6 (p. 2):

> "* * * American Photocopy Equipment Co. * * * in this District alone [Northern District of Illinois] has filed a total of ten lawsuits for infringement of said patent. Eight of the defendants in such actions have taken consent decrees and have paid to plaintiff [respondent] over one-half million dollars in damages and royalties."

V. Re: Respondent's Reply to Petitioner's Question 5 (Respondent's Restated Question 3).

Respondent's Brief (p. 2) restates petitioner's Question 5 as follows:

> "3 (former 5). Was it error to exclude a deposition taken in another action between different parties, where the deposition was inadmissible even in the action in which it was taken (due to the arbitrary refusal of the witness to permit completion of his cross-examination) and where a deposition exhibit (a letter written by the witness himself) contradicts petitioner's statement as to what the deposition would show?"

a. "Another action between different parties."

The action in which the deposition was taken was *Copease Mfg. Co.* v. *American Photocopy Equipment Co.*,

298 F. 2d 772 (7 Cir. 1961) wherein the present respondent was the defendant. Respondent is also the successor in interest of the plaintiff, having "purchased all of the capital stock of Copease Mfg. Co. * * * including the Eisbein patent [here in suit] and licenses previously granted thereunder" (A12).

b. "Refusal * * * to permit completion of * * * cross-examination".

Respondent's Brief (pp. 9-10) alleges that:

> "* * * the Boeger deposition was not even admissible in the action in which it was taken * * * because Boeger arbitrarily refused to permit completion of his cross-examination (Boeger dep., pp. 51, 52)."

This was not a ground of exclusion of the deposition by the Courts below and consequently has no bearing on Question 5 presented by petitioner for review. Moreover, there is no evidence in the present case of any refusal by the witness to permit completion of his deposition.

Deposition pages 51 and 52 cited by respondent are totally irrelevant. Presumably respondent intended to refer to page 74 which contains the following statement made at the conclusion of the examination:

> By Mr. Conner [Attorney then for respondent's assignor Copease, attorney now for respondent]: I have not completed my cross examination of this witness. I hope and assume that he will be able to return so that this cross examination may be completed. * * *

But there is no showing anywhere in the present record of any request for a further appearance of the witness or any refusal to appear. Furthermore, respondent should not be heard to complain of any alleged failure of the

witness to appear since he was respondent's own witness. Finally, the pertinent testimony sought to be used by petitioner, was elicited on Mr. Conner's own examination of the witness.

c. "Exhibit * * * contradicts * * * what the deposition would show".

Respondent's Brief (p. 10) alleges that the excluded deposition "is contradicted by Exhibit 42 to the deposition." This was not a ground of exclusion of the deposition by the Courts below and therefore has no bearing on Question 5 presented by petitioner for review. Moreover, "Exhibit 42" is not an exhibit in this case, not under that number or under any other number. It was never offered as an exhibit herein. And if it were in evidence, it would bear on the credibility of the witness and on the weight to be given to the deposition; it would have nothing whatsoever to do with admissibility, which is the Question presented for review.

d. Factual basis of Question 5.

Respondent does not challenge the factual basis of Question 5, that the Boeger deposition was excluded by the Courts below on grounds that conflict with the rules of evidence of the Illinois State Courts.

Question 5 remains a pertinent, important and unanswered question of federal procedural law.

VI. Re: Respondent's Reply to Petitioner's Question 6.

Respondent's Brief (p. 10) states that:

> "Petitioner has grossly misstated the circumstances and terms of the unaccepted 'offer' which was made to petitioner's employee in connection with his proposed testimony. The facts are correctly stated

in the affidavit which was filed in the District Court and which is reproduced as Appendix A to this Brief."

Petitioner's statement to which respondent takes exception was a direct quote—with not a word added or changed—from the decision of the Court of Appeals (A46).

The affidavit which respondent now attaches to its brief as Appendix A was stricken from the record in that very decision on respondent's own motion.

But accepting the affidavit as a correct statement of the circumstances and terms of the money offer, Question 6 remains a pertinent, important and unanswered question concerning the administration of justice.

Conclusion

The Court will, perhaps, discern from the record that the weakest, least likely member of the diffusion transfer photocopy industry has alone chosen to stand up for its rights and to sound a veritable Gideon's Trumpet in the public interest.

The path to this Court has not been smooth. It started in the District Court with a preliminary injunction granted on the eve of trial because of the probability "that defendant will be unable to respond in damages if plaintiff is ultimately successful." It led to the Court of Appeals for the Seventh Circuit and Judge Schnackenberg's landmark decision holding exorbitant and oppressive patent royalties in violation of the antitrust laws of the United States (A7, 10). This was followed by a District Court decision which effectively reversed the Court of Appeals

and held exorbitant and oppressive royalties permissible under the antitrust laws (A26). Mandamus was tried but it failed. The District Court was then affirmed by a split decision of the Court of Appeals (A42), Judge Schnackenberg standing firm in his adherence to the principles of law which he had laid down in his earlier decision (A44). A Petition for Rehearing *en banc* was denied, Judge Schnackenberg again dissenting.

If the issues which this Petition for Certiorari has raised are found to involve the public interest, it is respectfully suggested that the present opportunity to consider them may not soon be repeated, and certainly never again in connection with the diffusion transfer photocopy industry.

It is respectfully urged that the Petition for Writ of Certiorari be granted so that this Honorable Court may:

(1) determine the antitrust aspects of an exorbitant and oppressive patent royalty enveloping an industry;

(2) determine the antitrust aspects of a patent royalty on unpatented machines in unpatented combination with patented machines;

(3) determine whether F. R. Civ. P. 43(a) is mandatory on the Federal Courts, especially in connection with an issue (patent validity) involving the public interest; and

(4) condemn tampering with the administration of justice in the Federal Courts.

Respectfully submitted,

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Attorney for Petitioner.

Of Counsel:

SIDNEY WALLENSTEIN,
ROBERT S. STOLL.

February 12, 1968

APPENDIX A

BNA

antitrust & trade regulation report®

ROUTE TO

Number 337

December 26, 1967

Highlights of This Report

Supreme Court Told Patent Royalties Should Be Reasonable: Review petition insists that patent owner, who exacts exorbitant and oppressive royalties from licensees, has misused his patent and violated antitrust laws. Court is asked to construe 40-year old holding that patent owner can grant license for any royalty or upon any condition performance of which is reasonably within reward which the patent owner is entitled to secure. (A-1)

* * *

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Appendix A

NEWS

RESTRAINTS AND MONOPOLIES: SUPREME COURT ASKED TO FIND PATENT MISUSE IN EXORBITANT AND OPPRESSIVE ROYALTY

About 40 years ago, the Supreme Court held that a patent owner could grant a license under his patent "for any royalty or upon any condition the performance of which is reasonably within the reward" which the patent owner is entitled to secure, U.S. v. General Electric Co. 272 U.S. 476 (1926). Now the Court is asked to determine whether the exaction of exorbitant and oppressive royalties by a patent owner constitutes either misuse of the patent or a violation of the antitrust laws. The question is posed in a review petition filed by a company found to have infringed a patented machine used in the process of photocopying (Rovico, Inc., v. American Photocopy Equipment Co., No. 206, 12/12/67).

With one judge dissenting, the U.S. Court of Appeals for the Seventh Circuit (155 S.P.Q. 119, p. A-8, ATRR No. 320; 8/29/67) held that there was no patent misuse in basing a 6 percent royalty on retail list selling prices that result in royalties amounting to 12 percent of manufacturing costs of the entire machine and 24 percent of the cost of the patented part. Earlier, the Seventh Circuit (359 F.2d 745, pp. A-14, X-3, ATRR No. 243, 3/8/66) on appeal from a preliminary injunction thought the patent owner was charging "exorbitant and oppressive" royalty rates and was therefore guilty of misuse.

The review petition insists that the G. E. decision should be construed so that a royalty is as much a condition for license as any other condition. Consequently, the reasonable reward rule should apply to royalties as well as to other conditions. Moreover, the Supreme Court's decision in Brulott v. Thys, 379 U.S. 29, 143 U.S.P.Q. 264, pp. A-4, X-5, ATRR No. 175 11/17/65) should be interpreted as holding that the patent owner can exact royalties as high as he can negotiate provided that the royalties are reasonably within the reward which the patent owner is entitled to secure. These interpretations of G. E. and Brulott are supported by Automatic Radio Mfg. Co. v. Hazeltine Research, 339 U.S. (1950) and Standard Oil Co. v. U.S., 283 U.S. 163 (1931) and U.S. v. National Lead Co. 332 U.S. 319 (1947).

It is asserted that the Seventh Circuit's decision conflicts with two decisions of the U.S. Court of Appeals for the Third Circuit. The Seventh Circuit held that the absence of discrimination or conspiracy to fix prices is a defense to patent misuse in violation of the antitrust laws. That holding conflicts with the Third Circuit's decisions in Hanover Shoe v. United Shoe Machinery Corp., 377 F.2d 776 (p. A-13, ATRR No. 301, 4/18/67), review granted, No. 335 (p. A-6, ATRR No. 326, 10/10/67) and Newburgh Moire Co. v. Superior Moire Co., 237 F.2d 283 (1956)

The review petition asks (a) whether an exorbitant and oppressive royalty exacted from the bulk of an industry is a price fixing device; and, if so, (b) whether it violates the antitrust laws. It is asserted that the Court came closest to answering the first half of this question in Standard Oil Co. v. U.S., 283 U.S. 163 (1931) in its holding that, if combining patent owners effectively dominate an industry, the power to fix and maintain royalties is tantamount to the power to fix prices. While it is admitted that there are no combining patent owners who dominate an industry, it is insisted that there is a patent that dominates its industry. Regarding the second half of the question, it is asserted that the Seventh Circuit in its ruling on the preliminary injunction, held that the exorbitant royalty is an antitrust violation. The review petition wonders whether this is the law today and should it have been applied in the majority decision of the Seventh Circuit or is the rule of the General Electric case still in effect, sanctioning price fixing by patented licensor?

Appendix A

A - 2

12-26 67

Finally, the review petition insists that the Seventh Circuit incorrectly held that it is not an unlawful expansion of a patent monopoly to exact royalties from unpatented machines sold in combinations with the patented machines or from the unpatented combination from both machines. That holding conflicts with Supreme Court decisions in Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661 (1944); Automatic Radio Mfg. Co. v. Hazeltine Research, 339 U.S. 827 (1950); and the G.E. case. It is insisted that any ultra vires use of a patent monopoly constitutes patent misuse and that, where "it affects an industry," it violates the antitrust laws.

- 0 -

* * *

APPENDIX B

Offer of Proof

* * *

1) After becoming a licensee on November 1, 1962, it became necessary for Speed-O-Print Business Machines Corp. to raise the prices of all of its machines in order to pay the required royalties thereon. See the annexed schedule of prices and other information.

2) The 6% royalty became a royalty ranging from 80% to 150% when applied to Speed-O-Print's own selling price of the patented developing unit. A 50% trade discount is assumed,* but such discounts vary.

3) The 6% royalty became a royalty ranging from 92% to 245% when applied to Speed-O-Print's manufacturing cost for the patented developing unit.

4) In Speed-O-Print's machines (which accounted for 57% of all machines sold by plaintiff's licensees through September, 1965) the percentage value (in cost figures) of the patented developing unit in relation to the total value of the entire machine, ranges from 8% to 15%.

5) International Photocopy Corp. increased its suggested list prices 15% and cut dealer discounts from 50% to 40% to cover the royalty. This had an adverse effect upon its business and it subsequently went into bankruptcy.

---

* In the attached schedule, a trade discount of 50% has been used in the calculations. However, we are currently advised that the Speed-O-Print quantity trade discount is 45%, so that the figures in said schedule will be slightly modified accordingly. (Original footnote.)

Appendix B

6) Savin Business Machines Corp. was unable to absorb the royalty and it was compelled to add it to the prices of its machines. The price of Savin's most popular machine (its 10-inch model) was $99.95 prior to the license and $109.95 after Savin entered into the license agreement to cover the royalty. This was followed by a drop in volume of Savin's machine business under the license agreement, and about a year and a half ago Savin ceased all manufacture and sale of these machines.

7) Inter-Continental Photocopy Corp. consented to judgment and entered into the license agreement under pressure from plaintiff and in view of inquiries from customers as to possible liability under the Eisbein patent.

8) In negotiations for the license, Inter-Continental requested that the royalty be confined to

   a. the patented developing unit per se, and

   b. its own (manufacturer's) selling price or value thereof,

   but plaintiff insisted on applying the royalty to the retail selling price of the entire machine.

9) During license negotiations, Inter-Continental tried to exclude from the "Agreement and Release" any waiver of claims which it might have against plaintiff for damages for violation of the anti-trust laws, but plaintiff strenuously objected. Inter-Continental,

being a much smaller and financially weaker company than plaintiff, was in no position to resist and it was compelled to waive these claims.

10) In order to meet the competition of other manufacturers of diffusion transfer machines, especially plaintiff, Inter-Continental was forced to absorb the royalty which it could ill afford to do. It has been paying royalties on the retail list prices although the retail dealers often discount these prices to their customers. Inter-Continental has suffered severely from its absorption of the royalty.

11) General Aniline and Film Corp. has ceased all manufacture of the licensed machines.

12) Copease Corporation has sold out to another company and is going out of the diffusion transfer machine business.

13) Nashua Corporation (Copy-Cat Division) has gone out of the diffusion transfer machine business and has sold its remaining stock of machines to defendant.

14) Formfoto Manufacturing Company was compelled to consent to judgment and to accept a license under pressure from its customers.

15) Formfoto tried to absorb the royalty without raising its prices, but this left too narrow a margin of profit to survive, and it was forced out of the business of manufacturing the licensed machines.

16) In order to effect a termination of the suit which plaintiff had instituted against it in this Court (62

C 2258), The Fair (Inc.) was forced to make an Offer of Judgment containing an admission that "contrary to the Answer heretofore filed by The Fair (Inc.)" plaintiff

"has not charged prohibitive royalties;

• • •

"has not tied sales of the patented machine to sales of unpatented equipment;"

and The Fair (Inc.) was further compelled to waive and forever relinquish its demand for treble damages under the anti-trust laws;

and The Fair (Inc.) was further compelled to "allow Findings of Fact, [and] Conclusions of Law" to be entered by this Court, including Findings that plaintiff "has not charged prohibitive royalties" and "has not tied patented machine sales to sales of unpatented equipment", and including a Conclusion that plaintiff "has neither violated the anti-trust laws or public policy of the United States nor has Apeco misused the Eisbein Patent";

and The Fair (Inc.) was further compelled to "allow • • • a Final Judgment Order to be entered against it" determining that "The plaintiff has not violated the anti-trust or patent laws of the United States or otherwise misused the Eisbein Patent".

17) Only four manufacturers of diffusion transfer photocopy machines survive in the United States: plaintiff, defendant, Speed-O-Print, Inter-Continental. (Kenro makes an industrial processor for offset plates.)

Appendix B

SPEED-O-PRINT DIFFUSION TRANSFER PHOTOCOPY MACHINES

Model	Retail Price Nov. 1, 1962	Retail Price Nov. 12, 1962	1962 Cost of Entire Machine	1962 Cost of Developer	Percentage Developer to Machine	Manufacturer's Selling Price Entire Machine	Manufacturer's Selling Price of Developer	6% Royalty on Retail Price Entire Machine	Percentage Royalty to Cost of Developer	Percentage Royalty to Manufacturer's Selling Price of Developer
9A	99.00	109.50	48.61	7.17	15%	54.75	8.21	6.57	92%	80%
9B	219.50	229.50	61.92	7.17	12%	114.75	13.77	13.77	192%	100%
9C	279.50	289.50	91.43	7.17	8%	144.75	11.58	17.37	242%	150%
9M	149.50	159.50	60.51	7.17	12%	79.75	9.57	9.57	133%	100%
15A	224.50	234.50	60.00	8.31	14%	117.25	16.42	14.07	169%	85%
15B	269.50	279.50	71.97	8.31	12%	139.75	16.77	16.77	202%	100%
15C	329.50	339.50	96.65	8.31	9%	169.75	15.28	20.37	245%	133%

SUPREME COURT, U. S.

FILED
MAR 29 1968
JOHN F. DAVIS, CLERK

IN THE

Supreme Court of the United States

October Term, 1967

No. 906

ROVICO, INC.,

Petitioner,

against

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,

Respondent.

PETITION FOR REHEARING OF ORDER DENYING PETITION FOR WRIT OF CERTIORARI

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1967

No. 906

ROVICO, INC.,

Petitioner,

against

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,

Respondent.

PETITION FOR REHEARING OF ORDER DENYING PETITION FOR WRIT OF CERTIORARI

Petitioner respectfully prays for a rehearing of its Petition for a Writ of Certiorari, filed December 12, 1967, denied March 4, 1968.

Rehearing is sought in view of the filing on February 14, 1968 of a Petition for Certiorari in the Fourth Circuit case of *Marvel Specialty Company, Inc.* v. *Bell Hosiery Mills, Inc.* (October Term, 1967, No. 1120).

Reasons for Rehearing

The public importance of Questions 1-4 in the present case is demonstrated by the issues in *Marvel.*

1. *Conflict Between Two Circuits.*

One common issue raised in both cases, *derivation of patent royalties from unpatented attachments to patented machines,* has resulted in conflicting decisions by the Fourth and Seventh Circuit Courts of Appeals. We believe that the Fourth Circuit was right in *Marvel* and the Seventh Circuit wrong in the present case.

2. *Error Common to Two Circuits.*

On another common issue, *measuring the patent reward by "established royalty" instead of "reasonable royalty"*, the two Circuits are in accord. We believe they are both wrong.

Both issues are of great public concern, and it is believed that the public interest would best be served by a resolution of these issues by this Court for the guidance of all of the Circuit Courts of Appeals.

I. The Fourth and Seventh Circuit Courts of Appeals are in conflict on the right to derive royalties from unpatented attachments to patented machines.

In both cases, when the patented machine is sold (or leased) separately, the royalty is paid on the patented machine alone. In both cases, when the patented machine is combined with an unpatented machine (or attachment), the royalty is paid on the combination of both. In *Marvel,* the Fourth Circuit disapproved the royalty on the unpatented attachment; in the present case, the Seventh Circuit approved:

Fourth Circuit Decision In *Marvel* (*Marvel* Petition, p. 8a)	District Court Decision In Present Case (Our Petition p. A28) Affirmed By Seventh Circuit (Our Petition, p. A43)
"* * * plaintiff marketed two machines, one manufactured strictly in accordance with the teachings of the patent, and the other, an 'improved' model, incorporating an additional unpatented device. We	"While APECO's royalties are charged as a percentage of the retail selling price of the whole photocopying machine, [patented] developing and [unpatented] exposure devices alike, it would seem illogical

agree with the district judge that the portion of the $9.00 monthly charge attributable to the unpatented attachment is not an element of plaintiff's permissible recovery."

to this Court to conclude that APECO thus expanded its patent monopoly to include a non-patented device."

The Fourth Circuit decision in *Marvel* obviously coincides with the dissenting opinion of Judge Schnackenberg in the present case (Our Petition, p. A44):

> "The record shows that the patented machine is made and sold in combination with unpatented machines installed in the same cabinet and that the royalty paid by the manufacturer, is based, not on the manufacturer's selling price of the patented machine, but on the retail selling price of the entire combination, patented and unpatented machines alike. Thus, although the royalty rate of 6% remains constant, the actual royalty, applied to the manufacturer's selling price, ranges between 24% and 136%. It has been demonstrated in this case that the patent privilege in this case is being used by plaintiff contrary to the public interest."

In *Marvel*, the royalty on the unpatented machine, which the Fourth Circuit disallowed, represented ⅓ of the total royalty.

In the present case, the royalty on the unpatented machine, which the Seventh Circuit majority approved, admittedly amounts to *at least* ½ of the total royalty; actually it amounts to far more. The patented machine represents only 8%-15% of the value of the combined machines. Hence, of every royalty dollar paid (whether under license or under judgment) only 8-15 cents rewards

the patentee for his invention, and 85-92 cents is derived from the unpatented machine under the leverage of the patent (Our Reply to Respondent's Brief, p. 5b).

II. The Fourth and Seventh Circuit Courts of Appeals are in error in measuring patent reward by "established royalty" instead of "reasonable royalty".

In both cases, there is an "established royalty". In both cases, the Courts erroneously adopted the "established royalty" as the measure of patent reward without regard to whether the "established royalty" is or is not a "reasonable royalty":

Fourth Circuit Decision In *Marvel* (*Marvel* Petition, p. 6a)	District Court Decision In Present Case (Our Petition, p. A26) Affirmed By Seventh Circuit (Our Petition, p. A42-43)
"If no fixed royalty has been established, the courts will undertake an inquiry into what is a reasonable royalty. * * * "* * * where there is an established royalty, the Supreme Court, as early as 1886, held that the established royalty is the 'best' measure of damages."	"We cannot assume that there exist restrictions against 'unreasonably high royalties.' absent any proof of favoritism or conspiracy to fix prices * * *. * * * The free competitive market place has built-in controls such as supply and demands to limit the royalties charged by a prospective licensor. There is no indication that further controls are justified."

In the present case, as in *Marvel,* "established royalty" is the measure of damages and license fees alike.

In *Marvel,* the "established royalty" is under attack as being "*less* than a reasonable royalty" (*Marvel* Petition, p. 10); here it is challenged on the ground that it is exorbitantly and oppressively *more* than a reasonable royalty (Our Petition, p. 12).

The so-called 6% royalty in the present case is *admittedly* at least 24% of the licensee's (manufacturer's) selling price of the patented machine (Our Reply to Respondent's Brief, p. 5).

In the first appeal herein, the Seventh Circuit unanimously held this 24% royalty to be "exorbitant and oppressive" (Our Petition, p. A7).

In the second appeal, the dissenting Judge found the actual range of the royalty to be "between 24% and 136%" of the licensee's (manufacturer's) selling price of the patented machine, and held it to be a use of the patent privilege "contrary to the public interest" (Our Petition, p. A44).

Conclusion

We believe that the Patent Clause of the United States Constitution requires that the patent privilege be exercised as a public trust in fairness to all concerned——

the patent owner,

patent licensees,

even patent infringers,

and, not least, the public.

The patent reward must be fair and reasonable; otherwise it is not a reward and it does not "promote the progress of science and useful arts".

Where, as in *Marvel,* the patent reward is "less than a reasonable royalty", unduly favoring the infringer at the expense of the patent owner and legitimate licensees, the patent owner should have relief.

Where, as here, the patent reward is so far in excess of "reasonable royalty" as to be "exorbitant and oppressive" (as found by the Seventh Circuit in the first appeal herein) then those who are legally positioned to complain—those, like petitioner, who are charged with infringement—should have redress, not only for their own protection, but for the protection of the public as well.

This should particularly be so where, as here, the magnitude of the royalty is admittedly, and by finding of both courts below, due to its derivation

(a) not from the patented machine alone, but from its unpatented combination with an unpatented machine, and

(b) not from the licensee's (manufacturer's) selling price, but from the selling price of licensee's customers (retailers).

It is respectfully urged that this petition for rehearing be granted, so that these issues of great public importance may be resolved, and that respondent be found by this Court, as by the dissenting judge below, to be using the patent privilege "contrary to the public interest".

Respectfully submitted,

SAMUEL J. STOLL
Attorney for Petitioner.

SIDNEY WALLENSTEIN,
ROBERT S. STOLL,
of Counsel.

Certificate of Counsel

It is hereby certified that:

A. This Petition for Rehearing is presented in the utmost good faith;

B. This Petition for Rehearing is not presented for delay of proceedings in this or in any other Court;

C. This Petition for Rehearing is limited to the grounds specified in Rule 58, paragraph 2.

SAMUEL J. STOLL
Attorney for Petitioner.

SIDNEY WALLENSTEIN,
ROBERT S. STOLL,
of Counsel.

MOTION FILED
APR 1968
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SUPREME COURT, U. S.

IN THE

Supreme Court of the United States

October Term, 1967

No. 906

ROVICO, INC.,
Petitioner,

against

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,
Respondent.

MOTION FOR LEAVE TO FILE SUPPLEMENTAL PETITION FOR REHEARING

SUPPLEMENTAL PETITION FOR REHEARING OF PETITION FOR WRIT OF CERTIORARI

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1967

No. 906

ROVICO, INC.,

Petitioner,

against

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,

Respondent.

Motion for Leave to File Supplemental Petition for Rehearing

To: The Honorable Chief Justice and the Honorable Associate Justices of the Supreme Court of the United States:

Petitioner Rovico, Inc. respectfully moves this Honorable Court for leave to file the Supplemental Petition for Rehearing of Petition for Writ of Certiorari submitted herewith.

April 16, 1968

Respectfully submitted,

SAMUEL J. STOLL,
Attorney for Petitioner.

SIDNEY WALLENSTEIN,
ROBERT S. STOLL,
of Counsel.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1967

No. 906

ROVICO, INC.,

Petitioner,

against

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,

Respondent.

Affidavit in Support of Motion for Leave to File Supplemental Petition for Rehearing

State of New York
County of New York—ss.:

SAMUEL J. STOLL, being duly sworn, deposes and says:

1. I am a member of the Bar of this Court and I am the attorney for Rovico, Inc., Petitioner herein. I respectfully submit this affidavit in support of Petitioner's annexed Motion for Leave to File the Supplemental Petition for Rehearing submitted herewith.

2. For the second time since the filing, on December 12, 1967, of the present Petition for Certiorari, a Petition for Certiorari has fortuitously been filed in another case involving the same issues as here.

3. The first such petition was in *Marvel Specialty Company, Inc.* v. *Bell Hosiery Mills, Inc.*, No. 1120, October Term, 1967, filed February 14, 1968. The pending Petition for Rehearing herein was filed in view of *Marvel.*

Affidavit in Support of Motion for Leave to File Supplemental Petition for Rehearing

4. The second such Petition has now, March 26, 1968, been filed in *Zenith Radio Corporation* v. *Hazeltine Research, Inc. and Hazeltine Corporation,* No. 1266, October Term, 1967. It is the purpose of the proposed Supplemental Petition for Rehearing to call *Zenith* to the attention of the Court in its consideration of the pending Petition for Rehearing.

5. This Motion is made in good faith and not to delay proceedings in this Court or in the Courts below. The Mandate of the Seventh Circuit has gone down to the District Court for further proceedings pursuant thereto.

6. Favorable action on this Motion is respectfully urged.

SAMUEL J. STOLL

Sworn to before me this
16th day of April, 1968

ROBERT S. STOLL
Notary Public, State of New York
No. 31-3858715 New York County
Term Expires March 30, 1969

IN THE

Supreme Court of the United States

OCTOBER TERM, 1967

No. 906

ROVICO, INC.,

Petitioner,

against

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,

Respondent.

SUPPLEMENTAL PETITION FOR REHEARING OF PETITION FOR WRIT OF CERTIORARI

Rovico, Inc., Petitioner herein, supplements its pending Petition for Rehearing of its Petition for Certiorari, by respectfully calling the attention of the Court to the filing, on March 26, 1968, of a Petition for Certiorari in the Seventh Circuit case of *Zenith Radio Corporation* v. *Hazeltine Research, Inc. and Hazeltine Corporation,* No. 1266, October Term, 1967.

The Seventh Circuit's interpretation of *Automatic Radio Mfg. Co.* v. *Hazeltine Research,* 339 U. S. 827, 70 S. Ct. 894 (1950), is the ground on which its patent "non-misuse" decisions in *Zenith* and in the *Rovico* case at bar both stand. There, as here, *Automatic Radio* is construed as this Court's authority for the Seventh Circuit doctrine that patent royalties may lawfully be derived from unpatented products. See the annexed Supplemental Appendix.

Zenith's Petition for Certiorari (*Zenith* Petition, Question 10, pp. 5, 33-34), like the Petition for Certiorari in the

present case (*Rovico* Petition, Question 4, pp. 4, 20-24), challenges the Seventh Circuit's interpretation of *Automatic Radio.*

If the Seventh Circuit's interpretation of *Automatic Radio* is wrong in *Zenith,* it cannot be right in *Rovico.*

If the Seventh Circuit's "non-misuse" doctrine based on such interpretation of *Automatic Radio* imposes an unreasonable and unlawful restraint of trade upon the television receiver industry (involved in *Zenith*), it imposes an equally unreasonable and unlawful restraint of trade upon the photocopy machine industry (involved in *Rovico*).

If the Petition for review of the Seventh Circuit's interpretation of *Automatic Radio* is granted in *Zenith,* it should not be denied in *Rovico.*

If the Seventh Circuit's interpretation of *Automatic Radio* is disavowed by this Court in *Zenith,* it should not be allowed by this Court to stand in *Rovico.*

The public importance of the question of whether a patent monopoly may lawfully be expanded to exact royalties from unpatented products is dramatically demonstrated by the use of the patent monopoly for that very purpose in the knitting machine industry (*Marvel Specialty Co. Inc.* v. *Bell Hosiery Mills, Inc.,* No. 1120, October Term 1967), the television receiver industry (*Zenith*), and the photocopy machine industry (the present *Rovico* case). In *Zenith* and *Rovico* alike, the Seventh Circuit has done what this Court has expressly declined to do in *Brulotte* v. *Thys,* 379 U. S. 29, 85 S. Ct. 176, 179 (1964), namely, to extend the doctrine of *Automatic Radio.*

CONCLUSION

It is respectfully urged that the Petition for Rehearing, herein supplemented, and the Petition for a Writ of Certiorari be both granted.

April 16, 1968

Respectfully submitted,

SAMUEL J. STOLL,
Attorney for Petitioner.

SIDNEY WALLENSTEIN,
ROBERT S. STOLL,
of Counsel.

SUPPLEMENTAL APPENDIX

(Excerpts From *Zenith* and *Rovico* Decisions)

(See opposite)

Zenith v. *Hazeltine*

Seventh Circuit Decision:

"We agree with HRI that the district court erred in holding the method of computing royalties to be patent misuse. *Automatic Radio Mfg. Co.* v. *Hazeltine Research, Inc.*, 339 U. S. 827 (1950). Therefore there is no basis for that part of the court's injunction relating to payment of royalties on unpatented products, and we order that it be modified by deleting from paragraph A the words: 'or upon the paying of royalties on the manufacture, use or sale of apparatus not covered by such patent.'" (*Zenith* Petition, p. 84)

District Court Decision:

"There is a further feature of Plaintiff's licensing practices that in and of itself constitutes an illegal attempt to extend the patent monopolies. The license agreement, whether it be under a single patent or under Hazeltine's entire patent package, requires the payment of royalties in large sums for a period of five years on the entire production of the licensee whether or not any licensed patent is employed in any way in the licensee's products. Plaintiff's demands that royalties be paid on admittedly unpatented apparatus constitute misuse of its patent rights and plaintiff cannot justify such use of the monopolies of its patents, by arguing the necessities and convenience to it of such a policy. While parties in an arms-length transaction are free to select any royalty base that may suit their mutual convenience, a patentee has no right to demand or force the payment of royalties on unpatented products."* (*Zenith* Petition, p. 57)

* This was quoted, in part, by the present Petitioner (Rovico) in its Reply Brief before the Seventh Circuit, page 11.

Rovico v. *American Photocopy*

Seventh Circuit Decision:

"The [District] court found no misuse in the alleged charging of royalties on the unpatented exposure part of the device, citing *Hazeltine Research, Inc.* v. *Avco Mfg. Corp.*,* 227 F. 2d 137 (7th Cir. 1955), *cert. denied*, 350 U. S. 981 (1956); and *Hazeltine Research, Inc.* v. *Admiral Corp.*, 183 F. 2d 953 (7th Cir.), *cert. denied*, 340 U. S. 896 (1950). We are not persuaded the findings are clearly erroneous or the conclusion of non-misuse is erroneous." (*Rovico* Petition, pp. A42-43)

* Relying, p. 147, on *Automatic Radio.*

District Court Decision:

"Similarly, we can find no rationale to support defendant's argument relating to 'tying.' While APECO's royalties are charged as a percentage of the retail selling price of the whole photocopying machine, developing and exposure devices alike, it would seem illogical to this Court to conclude that APECO thus expanded its patent monopoly to include a non-patented device. * * *

* * *

"Indeed, the Seventh Circuit Court of Appeals * * * stated in Hazeltine Research v. Avco Mfg. Corp., (7th Cir., 1955) 227 F. 2d 137, cert. den. 350 U. S. 987, 76 S. Ct. 474, 100 L. Ed. 854:

> "' * * * royaltie. are payable on total production of radio and television receivers, regardless of the extent to which the licensee uses any Hazeltine patent'. (227 F. 2d at p. 147)

"Accord: Automatic Radio Co. v. Hazeltine, 339 U. S. 827, 833, 836 (1950); Hazeltine Research v. Admiral Corp., (7th Cir., 1950) 183 F. 2d 953. In the latter case, the Court approved a royalty based upon an entire television broadcast receiver even though the patent was directed to a small feature thereof.

> "'There are two provisions of Hazeltine's license agreements principally relied upon * * * (1) the exaction of royalty on entirely unpatented products made by plaintiff's licensees * * *.
>
> "'It is our conclusion that the misuse charge made by Admiral must be rejected.'"

(*Rovico* Petition, pp. A28-29)

Rovico v. *American Photocopy*

Seventh Circuit Dissenting Opinion:

"The record shows that the patented machine is made and sold in combination with unpatented machines installed in the same cabinet and that the royalty paid by the manufacturer, is based, not on the manufacturer's selling price of the patented machine, but on the retail selling price of the entire combination, patented and unpatented machines alike. Thus, although the royalty rate of 6% remains constant, the actual royalty, applied to the manufacturer's selling price, ranges between 24% and 136%. It has been demonstrated in this case that the patent privilege in this case is being used by plaintiff contrary to the public interest. *Mercoid Corp.* v. *Mid-Continent Company*, 320 U. S. 661, 669 (1944); *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488, 492 (1942)." (*Rovico* Petition, p. A44)

Certificate of Counsel

It is hereby certified that:

A. This Supplemental Petition for Rehearing is presented entirely in good faith;

B. This Supplemental Petition for Rehearing is not presented for delay of proceedings in this or in any other Court;

C. This Supplemental Petition for Rehearing is limited to the grounds specified in Rule 58, paragraph 2.

April 16, 1968

SAMUEL J. STOLL,
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SIDNEY WALLENSTEIN,
ROBERT S. STOLL,
of Counsel.

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Supreme Court of the United States

October Term, 1967

No. 906

ROVICO, INC.,

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against

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,

Respondent.

MOTION FOR LEAVE TO RENEW PETITION FOR REHEARING

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1967

No. 906

ROVICO, INC.,

Petitioner,

against

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,

Respondent.

MOTION FOR LEAVE TO RENEW PETITION FOR REHEARING

To: The Honorable Chief Justice and the Honorable Associate Justices of the Supreme Court of the United States:

Petitioner Rovico Inc. respectfully moves this Honorable Court:

(a) For leave to renew its Petition for Rehearing of the Petition for Writ of Certiorari; and

(b) For leave to argue the appeal, if the Petition for Certiorari is granted, concurrently with the argument of the appeal in *Zenith Radio Corporation* v. *Hazeltine Research, Inc.*, No. 1266, October Term, 1967, certiorari granted May 27, 1968.

On April 22, 1968, this Court granted Petitioner's Motion for Leave to Supplement Petition for Rehearing,

and concurrently denied the Petition, U. S. , 88 S. Ct. 1404.

The Motion to Supplement the Petition for Rehearing was based on the *filing* of a Petition for Certiorari in *Zenith*. The present Motion is based on the *granting* of the *Zenith* Petition for Certiorari.

As shown in Petitioner's Motion to Supplement its Petition for Rehearing, there are common antitrust questions in the present *Rovico* case and in *Zenith* (expansion of the patent monopoly by exacting patent royalties from unpatented devices in violation of the antitrust laws) and the same interpretation by the Seventh Circuit Court of Appeals of the same decision of this Court (*Automatic Radio Mfg. Co.* v. *Hazeltine Research,* 339 U. S. 827, 70 S. Ct. 894, 1950).

The present *Rovico* case and the *Zenith* case ran parallel courses in the same District Court in Illinois and in the Seventh Circuit Court of Appeals. In both cases, one of the key questions was whether the leverage of a patent may lawfully be used to exact patent royalties from unpatented devices. In both cases, this question was decided by the Seventh Circuit in the affirmative on the authority of *Automatic* and related *Hazeltine* cases. This parallel course of the *Zenith* and *Rovico* cases continued into this very Court. As an illustration, we quote the following argument from Respondent's Brief in Opposition to Petition for Writ of Certiorari (pp. 8-9):

> "Its [Respondent's] licensing practice is far more innocuous than that which this Court approved in *Automatic Radio Mfg.* v. *Hazeltine Research,* 339 U. S. 827, 834 (1950), where the licensee was required to pay royalties computed as a percentage of its entire sales of television receivers, whether

> patented or not. This undoubtedly resulted in payment of royalty on some wholly unpatented units. And it is quite significant that this Court expressly distinguished such royalty provisions from the illegal extension of monopoly proscribed by *Mercoid.*"

Parallel excerpts from the decisions of the District Court and Seventh Circuit Court of Appeals in *Zenith* and in the present *Rovico* case are quoted in the Appendix to the Supplemental Petition for Rehearing of the Petition for Writ of Certiorari herein.

The granting of the *Zenith* Petition for Certiorari is believed to constitute a finding by this Court that the antitrust questions raised therein are of great public importance. Since identical antitrust questions are raised in the *Rovico* Petition for Certiorari, it is respectfully submitted that the same finding of public importance applies to *Rovico.*

If this Court should reverse the Seventh Circuit on its interpretation in *Zenith* of this Court's decision in *Automatic,* and if this Court should hold in *Zenith* that the leverage of a patent may not lawfully be used to exact royalties from unpatented devices, these determinations should also be made in the present *Rovico* case. It would appear highly inequitable and unjust, and in derogation of the principle of "Equal Justice Under Law", to let the Seventh Circuit decision stand in *Rovico* while reviewing and possibly reversing it in *Zenith.*

It is respectfully urged that this Motion be granted, that the *Rovico* Petition for Rehearing of its Petition for

Writ of Certiorari be granted, and that the appeal herein be set down for argument concurrently with the argument of the appeal in *Zenith*.

Dated: New York, New York
May 29, 1968

Respectfully submitted,

SAMUEL J. STOLL,
Attorney for Petitioner

Of Counsel:

ROBERT S. STOLL.
SIDNEY WALLENSTEIN,

IN THE

Supreme Court of the United States

OCTOBER TERM, 1967

No. 906

ROVICO, INC.,

Petitioner,

against

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,

Respondent.

Affidavit in Support of Petitioner's Motion for Leave to Renew Petition for Rehearing, and Certificate of Counsel

State of New York
County of New York—ss.:

SAMUEL J. STOLL, being duly sworn, deposes and says:

1. I am a member of the Bar of this Court and I am the attorney for Rovico, Inc., Petitioner herein. I respectfully submit this affidavit in support of Petitioner's annexed Motion for Leave to Renew Petition for Rehearing of this Petition for Writ of Certiorari.

2. On April 22, 1968, this Court granted Petitioner's Motion for Leave to Supplement its Petition for Rehearing and concurrently therewith denied the Petition,

U. S. , 88 S. Ct. 1404. The Petition, as supplemented, was based on the *filing* on March 26, 1968 of a Petition for Writ of Certiorari in *Zenith Radio Corporation* v. *Hazeltine Research, Inc.,* No. 1266, October Term, 1967. The present Motion is brought in view of the *granting* of the *Zenith* Petition for Certiorari.

3. As appears in the annexed Motion to Renew and in the prior Motion for Leave to Supplement the Petition for Rehearing, there are common questions in the present *Rovico* case and in *Zenith* of antitrust law and the same interpretation by the Seventh Circuit Court of Appeals of the same decision of this Court in *Automatic Radio Mfg. Co.* v. *Hazeltine Research, Inc.,* 339 U. S. 827, 70 S. Ct. 894 (1950).

4. Granting of the Petition for Certiorari in *Zenith* is believed to be a finding that the questions presented therein are of great public importance. Since the same questions (some, not all) are also presented in the present case, the finding of public importance in *Zenith* should equally apply to the present case.

5. This case has now twice been before this Court (on the original Petition for Certiorari and on Rehearing) and it is hoped that the Court will accept the assurance of the undersigned that this third appearance is not lightly made. Petitioner has exerted every effort to resolve the present controversy between the parties without further litigation, but without success, and the action is still pending.

6. It is accordingly certified by the undersigned attorney for Petitioner, that the present Motion is made in good faith, and not for purposes of delay of legal pro-

ceedings in the Courts below. It is believed that there is every justification, legal and equitable, for the present Motion and it is respectfully urged that it be granted, together with the Petitions for Rehearing and Certiorari.

7. In the event that the Motion to Renew and the Petitions for Rehearing and Certiorari are granted, it is respectfully suggested, pursuant to Rule 43(5) of the Rules of this Court, that the appeal be set down for argument concurrently with the argument of the appeal in *Zenith*.

SAMUEL J. STOLL

Sworn to before me this
29th day of May, 1968

ROBERT S. STOLL
Notary Public, State of New York
No. 31-3858715 New York County
Term Expires March 30, 1969